EVALUATING CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE PRACTICES OF THE GCC ISLAMIC BANKS THROUGH DISCLOSURE ANALYSIS

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ABSTRACT

The concept of corporate social responsibility (CSR) has been one of the most contested issues during the last few decades, due to the consequences it has for business and society. The concept of CSR represents corporate activities, beyond profit making, which include protecting the environment, caring for employees, being ethical in trading, and getting involved in the local community. Despite the fact that the primary goal of enterprises is to generate profit, they can be voluntarily involved in solving social and environmental problems. Furthermore, endorsing human rights, community contribution, human resource management, socially responsible investing, and social reporting, in particular, are some of the main issues of CSR.

While CSR is expected to be practiced for being socially acceptable, another important and related aspect of corporations including banks are corporate governance (CG). In particular, with the recent financial crises, the importance of CG has emerged as an important factor.

Considering that Islamic finance aims to develop an alternative paradigm, it has consequences for CSR and CG. As argued in this research, Islamic moral economy base suggests an integrated CSR and CG.

This research hence aims to explore and examine the CSR and CG performance of the GCC Islamic banks through information communicated by their annual reports in relation to a disclosure index created by the help of Islamic moral economy and various standardization documents. For this, fifteen Islamic banks was sampled from five GCC Islamic banks; and through content analysis the disclosed information in line with the created index analyzed for the period of 2008-2012.

The findings of this research indicate that the CSR and CG performance of the sampled Islamic banks are very low; and is not compatible with the expectations developed through Islamic moral economy. The study also found that there is a positive but statistically insignificant relationship between CSR and CG practices in the case of sampled banks for the period in question.

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Dissertation Submitted in Fulfilment of the Requirements For The Degree of Masters by Research in Economics

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September 2014

TABLE OF CONTENTS

Chapter 3:

RESEARCH METHODOLOGY

Chapter 4:

EVALUATING THE CSR AND CG DISCLOSURE PERFORMANCE OF THE GCC ISLAMIC BANKS: EMPIRICAL FINDINGS

List of Tables

Declaration

I hereby declare that this study has not been used in support of any application for another degree or qualification of this or any other university or institution of learning.

Statement of Copyright

Dedication

I hereby dedicate my Master’s Degree to my parents, my sisters Amina & Noor Almeer who believed in me and to my childhood friend, Wejdan Al-Mahmaied. My hard work was a result of their support, encouragement and their keenness for me to accomplish my many goals of which my Master's is one.

Acknowledgements

Accomplishing my MA dissertation could not have been achieved without Professor Rob Dixon and Dr Aly Salama's supervision, both of whom challenged me throughout my academic year to produce nothing less than my best. In addition, I appreciated the motivation offered by Professor Mehmet Asutay, my BA supervisor, who advised me and had no doubts as to my ability to obtain a higher degree.

I would also like to express my gratitude to my former manager Mr. Khalifa Alkuwari at Qatar Holding / Qatar Investment Authority for his constant encouragement throughout my MA and to continue my higher education.

I would not wish to forget one of the great people I was given the chance to meet at Durham, my friend and former student at Durham University Haneefah Altayar to whom thanks for her continued support.

Despite every moment of doubt along the way, now I stand tall.

Thank you to all,
Huda Almeer

CHAPTER 1

INTRODUCTION

"Be a community that calls for what is good, urges what is right and forbids what is wrong"

(Qur'an, Surah Al-i-Imaran-3: 104)

1.1 BACKGROUND AND OVERVIEW

Since the late 1960s and early 1970s, Islamic banking has experienced unprecedented growth, with an increasing number of Islamic banks and financial institutions present in most economies across the world. The basis of Islamic finance is rooted in Islamic ethics derived from the Islamic law and the principles of the *Shari'ah*. The ontological sources of Islamic ethics and law consist of the *Holy Quran* and the *Sunnah* or the practices of the Prophet, which are then clarified by *ijma* (scholarly consensus) and *qiyas* (analogy) (El-Gamal, 2006: 27).

The initial Islamic banking experience was based mainly around social banking, as in the case of Mith Ghamr in Egypt in 1963. It was not until 1975 that the first commercial Islamic bank, Dubai Islamic Bank, was established in Dubai. This paved the way for the development of Islamic banking outside the GCC region; and, as *The Banker* (2013) noted, there are now more than 500 Islamic banks in various forms operating in different parts of the world with managed assets of over USD 2 trillion. As Islamic banks have shown tremendous growth, the debate over their Islamic ethicality has become heated; while some arguing that their corporate and shareholder nature, others insist on their ethical foundations and stakeholder nature.

Regardless of this debate, Islamic banks are seen as a modern form of financial institution, which aim to maximize their profit subject to social and ethical considerations. Therefore, Gray and Blamer (2001: 1) labelled such corporations as "having corporate identity" or being socially responsible. The ethical and social identity of Islamic banks is related to their *Shari'ah* compliancy in terms of complying with the prohibition of *riba* or charging of interest and uncertainty as well as through profit-loss-sharing and risk sharing, and through asset-based/asset-backed financing. Furthermore, the ethical or moral nature of Islamic finance directly relates to Islam's way of understanding human beings, corporations and their respective places in the world and everyday life.

While Islamic moral economy treats 'social responsibility' as essential for all Muslims, the concept of corporate social responsibility (CSR) has been one of the most discussed issues during the past few decades in relation to the practices of the corporate sector. Since the 1950s, the growing number of social and economic problems has significantly affected not only the terminology of the debate about the social responsibility of business, including adopting the concept of CSR, but also has developed the subject as a discipline (Carriga and Melé, 2004: 51). In responding to CSR initiatives intellectually and practically, Friedman (1996: 6) shows strong opposition by suggesting that the main and only responsibility of business is to utilize its resources and put them into practice in order to increase profits. Despite such counter positions, the field of CSR has developed as an academic field of study as well as a practice; and presently comprises a large number of theories, approaches and definitions. Thus, CRS has become a subject of debate concerning to what extent organizations should be socially responsible and thus have a positive contribution on society beyond their own organizational aims (Lantos, 2001: 1).

The concept of CSR is concerned with corporate activities beyond profit-making, including protecting the environment, caring for employees, being ethical in trading and becoming involved in the local community. In sum, it suggests returning at least certain rights to the society within which the company operates. Thus, despite the fact that the primary goal of enterprises is to generate profit, they can be voluntarily (and sometimes mandatorily) involved in mitigating social and environmental problems within the framework of being socially responsible. Within this context, endorsing human rights, contributing to the community, managing human resource, investing in a socially responsible manner and social reporting are some of the main issues of CSR (CSR Europe, 2001: 1).

Along with CSR, corporate governance (CG) is also an essential structural component of modern institutions, be it financial or otherwise. CG refers to the way in which a firm or an institution is structured and managed, and how the relationships between different levels within an organization and with other external stakeholders are arranged. Since CG emerged as an essential best practice area within the larger governance issues during the 1980s, various sets of definitions have been applied to the concept based on the perspectives of the person who utilizes the concept and how they apply it. However, a broader definition of CG is provided by Gregory and Simms (1999: 2), in which CG is seen as a combination of regulations, laws, rules and other activities that allows a firm to meet its legal obligations and general expectations in order to attract capital and perform efficiently. Accordingly, the main concern of a financial institution is building an environment of trust with its stakeholders and shareholders; hence, a corporation is then able to fulfil its general expectations and legal obligations.

The failure of a number of banks and other financial institutions during the recent global financial crisis has been attributed to CG deficiencies. Senior management in certain institutions failed to disclose relevant financial and other information; thus, the failures of corporations such as WorldCom and Lehman Brothers have highlighted the importance of CG as those institutions were poorly managed by their board of directors.

Since CG aims to establish the arrangements between different levels within organizations and externally with other stakeholders, it directly relates to the CSR activities of a company. Thus, improved performance in CG is directly related to improved CSR outcomes within the stakeholder CG framework. This implies that the CG structure also effectively arranges the socially expected outcomes in relation to society. In other words, CG is expected to internalize and establish a particular strategy in the relationship between the company (bank) and the society within which it operates.

There are a number of methods by which the performances of CSR and CG can be measured. However, in terms of 'accounting' the most preferred method is to measure the amount and the nature of information disclosed by the organisations; in this study, by banks, in their annual reports and other documents. Therefore, this study utilises this disclosure as a method of measuring their performance in relation to CG and CSR. In particular, the study examines the relationship between CG and CSR through the information disclosed by the GCC (Gulf Cooperation Council) Islamic banks. The GCC financial market is chosen because it is an emerging market in which very rapid and dynamic growth and development is being experienced. Hence, measuring the CSR and CG behaviour as reported in the annual reports is important in order to suggest best CSR practices based on empirical evidence from the GCC banking industry.

1.2 AIMS AND OBJECTIVES

This study aims to explore the CSR and CG performance of the selected GCC Islamic banks through the information they disclose in their annual reports within relative indices based on the standards developed by a number of international agencies specialising in Islamic finance. In addition, this study aims to establish if there is any relation/correlation between CSR and CG performance through respective disclosure indices.

In responding to these aims, the following objectives are set:

i. to develop an in-depth understanding of CSR and CG through Islamic moral economy and finance and their conventional counterparts;
ii. to develop indices to evaluate the CSR and CG performance of the GCC Islamic banks;
iii. to use content analysis to examine the annual reports to identify the disclosure level according to the indices developed;
iv. to evaluate the CSR and CG performance in a comparative manner of Islamic banks in the GCC region (Qatar, Kuwait, Saudi Arabia, UAE and Bahrain) through the information the banks disclose in their annual reports; and
v. to explore the relationship or correlation between CSR and CG performance through disclosure indices.

1.3 RESEARCH QUESTIONS

In line with the research aims and objectives, this research answers the following questions:

i. What is the meaning of the CSR and CG concepts in the mainstream financial institutions?
ii. What alternative conceptualisations and models have been developed by Islamic finance for CSR and CG?

iii. What is the level of CSR and CG disclosure in the GCC Islamic banks? and
iv. Is there any correlation between CSR and CG disclosure indices?

1.4 RATIONALE AND MOTIVATION OF THE RESEARCH

The motivation for this research stems from the fact that the principles of CSR and CG that have gained popularity and acceptance in the West since the 1980s may be considered to be inherently Islamic practices in line with the Islamic ontology. Considering the growing nature of Islamic banking, it is important to understand if Islamic banks live up to the expectations identified by their moral economy. Therefore, an examination of CSR and CG practices in the GCC Islamic banks is important, as it is important to establish if such practices have become an integral part of their agenda. Furthermore, evaluating the socio-economic contribution of the GCC Islamic banks can help to develop new strategies and techniques towards practicing CSR in order to build comprehensive socially responsible financial institutions.

The GCC countries have a rapidly developing financial industry and, therefore, it is important to raise the social and philanthropic activities of their banks through increasing their practice of CSR. Moreover, there is a lack of literature in terms of the CSR practices in the GCC region in general and the GCC banking sector in particular.

Furthermore, as has been highlighted by writers, such as Hasan (2012), Islamic financial institutions have not developed best CG practices. Therefore, it is important to evaluate the CG practices of the GCC Islamic banks in order to identify if there are any distinguishing characteristics.

Finally, it is argued that CG has an impact on CSR. This study, therefore, assesses if any such link exists between CG and CSR and if CG disclosure determines CSR disclosure.

1.5 RESEARCH METHODOLOGY

This research employs qualitative and quantitative methodologies, which in general include the testing of specific research hypotheses, sampling a representative population, data collection and data analysis. This research sampled 15 Islamic banks from the GCC countries in order to explore and evaluate their CSR and CG disclosure performance. The research uses content analysis of the corporate annual reports according to the developed indices for both CSR and CG. After identifying their performance in relation to CSR and CG, further quantitative methods in the form of correlation and causality analysis is undertaken to measure any relationship between the CG and CSR.

1.6 OUTLINE OF THE RESEARCH

This dissertation is divided into 5 chapters as follows:

Chapter 1 presents an introduction of the background, aims and objectives of the study, sets out the research rationale and motivation and the significance of this research.

Chapter 2 presents the literature review. It defines CSR and CG, providing an in-depth understanding. It highlights the challenges facing the Islamic banks in adopting CSR practices. In addition, it explores the existing literature surrounding CSR and CG disclosure.

Chapter 3 discusses the research methods and the relevant data collection procedures, and how qualitative and quantitative data is explored to assess the content of CSR disclosure by the GCC Islamic banks. It then outlines the proposed theoretical framework of the study and highlights how the collected data is analysed.

Chapter 4 presents the analysis results for the CSR and CG and uses these evaluations to assess the CSR and CG disclosure of the GCC Islamic banks. It also discusses the correlation and causality between CSR and CG disclosure for the sampled GCC Islamic banks.

Chapter 5 presents the conclusions, the limitations of the research and policy recommendations and suggestions for further research.

Chapter 2

LITERATURE REVIEW: CONVENTIONAL AND ISLAMIC PERSPECTIVES ON CSR AND CG

2.1. INTRODUCTION

Islamic finance emerged in modern times to respond to the financial needs of Muslims and beyond in a constructivist manner; and the main foundation of this constructivism is Islamic ethics and the Islamic legal code, or the *Shari'ah*. In defining the scope of *Shari'ah*, Imam Al-Ghazali sees the aspiration of *Shari'ah* as "promotion of the wellbeing of mankind, which lies in safeguarding their faith *(dien),* their human self *(nafs),* heir intellect *('aql),* their posterity *(nasl).* Whatever ensures the safeguarding of these five serves public interest and is desirable" (cited in Chapra, 2000: 118; Asutay, 2007: 179). This interpretation also refers to a particular methodology, which is known as *maqasid al-Shari'ah*, which, in Ghazalian sense, is defined as 'human well-being'. Therefore, it is important to identify that Islamic banks, among other financial and economic activity, should be compliant with this notion of *maqasid*, or, in other words, should also be socially responsible, as such a definition of Islam in the sense of the moral economy implies institutions including banks should have positive socio-economic consequences, such as contributing to human development. This is clear from the construct of the Islamic moral economy, as Islamic economics is constructed around philosophical axioms such as *tawhid, adalah, rububiyyah, khilafah* and *tazkiyah* (Ahmed, 1979: 230), which have social and developmentalist consequences.

This chapter reviews the existing literature on CSR and CG disclosure in Islamic banks. Thus, this chapter first explores CSR through its definitions and aspects and then relates to Islamic moral economy understanding of CSR.

2.2. CSR: A LITERATURE REVIEW ON CONVENTIONAL PERSPECTIVES

*"If men are responsible for the known results of their actions, business responsibilities must include the known results of business dealings, whether there have been recognized by law or not" (*Clark, 2009: 83)

An increasing number of companies in the West are presently adopting CSR strategies as a result of social, economic, and environmental problems are faced in everyday life. According to European Commission (2001: 5), more companies in Europe have acknowledged the notion of CSR and included it in their strategic development plans.

CRS can be described as transparent business actions that are based on ethical values, respect for people, communities, and the environment and which are in compliance with legal requirements. Thus, it is expected that socially responsible companies have a positive and productive impact on society. Furthermore, CSR encourages investment in human capital, environmental issues, and the relations with stakeholders. This, in turn, is expected to help to achieve a better competitive advantage for companies and coherence with the larger society in which the company operates.

In addition, CSR is expected to improve the financial performance of an organization through improved brand image and reputation as well as increasing the ability to attract and retain a quality workforce. It also enhances the social practices within an institution through encouraging trainings, improving the quality of working conditions, and strengthening management-employee relations.

Different organizations have framed different definitions of CSR, although there is considerable common ground between them. By and large, CSR is about how companies manage the business processes to produce an overall positive impact on society. In a more formal manner, CSR can be defined as the management's obligation to make choices and actions that will contribute to the welfare and interest of society as well as the organization (Richard, 1998). Additionally, CSR initiatives also relate to creating a cleaner environment (European Union, 2001: 5).

As can be seen, different sources have suggested various definitions of CSR, which are in general not very clear and, therefore; according to McWilliams *et al*. (2006: 1) they cause difficulties in theoretical development and analysis. However, the most popular conceptual description of CSR can be found in Caroll (1991: 45), who proposes that the social responsibility of corporation includes four basic components: economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

2.2.1 Theories of CSR

Over the past 50 years, numerous theories on the strategic implications of CRS have been developed. The proponents of classical view of CSR believe that the "government's job is not business, and business's job is not government" (Levitt, 1958:47 cited in McWilliams et al., 2006: 3) in which they are referring to governmental imposition of social expectations. Milton Friedman, the major proponent of this view, expresses the opinion that social issues are not in the interest of corporations as the ultimate goal of business is to maximize profit (cited in Dusuki, 2008: 9) and adds that the existence of CSR shows the agency problem within the operations of firms (cited in McWilliams *et al*., 2006: 3). In addition, Friedman believes that philanthropic activities are nothing other than a misuse of corporate reserves, which may jeopardize the business and threaten the shareholder's stake (cited in Dusuki, 2008: 9).

In contrast, proponents of CSR suggest that broader social welfare beyond mere profit should be the concerns of businesses. According to this approach, businesses are parts of society and need people as much as people need organizations (Dusuki, 2008: 9). Thus, social contract theory encourages ethical and philanthropic strategy to be adopted by business alongside the traditional concerns of shareholders. While, the institutional approach is employed by Jennings and Zandbergen (1995: 1015) in order to study social responsibility in terms of environmental issues. The central idea of institutional theory is that institutions play a significant part in reaching an agreement within a firm on the subject of creating an "ecologically sustainable" organization (cited by McWilliams, 2006: 7).

The contributions of Western scholars demonstrate that contemporary debates on CSR are fundamentally based on a Western orientation. In the Western approach to CSR materialistic attitudes are more dominate than ethical concerns. Furthermore, Mohammed (2007: 12) states that the majority of modern internationally accepted theories of CSR have been developed in Europe and America, which highlights a gap in the literature on the concept of CSR in other cultural and religious environment. Thus, Islamic moral economy criticizes the Western view of CSR on the basis that it restricts itself to human perception and material factors (Dusuki, 2008: 12).

The Western approach introduces confusion for managers, as there is no agreement on ethical or moral values to guide CSR. In order to solve this problem, recently a number of attempts have been taken through the formulation of new international CSR standards, norms, corporate code of conduct and guidelines. Examples are the Green Paper 336: *Promoting a European Framework for CSR* by the European Commission, and *the Caux Round Table Principles for Business*, which makes possible to share views of international managers from Japan, Europe and US on corporate ethics and behaviour (Mohammed, 2007: 13-14). However, it is important to stress that all of these standards are still based upon Western values.

Consequently, the Western approach to CSR may not necessarily be fully accepted by the countries with different cultural and religious backgrounds. Hence, it is important in this study to evaluate the CSR practices of the GCC Islamic banks based on empirical evidence from the GCC Islamic banking industry by endogenising the local cultural and religious form, as explained and rationalised in the later sections.

The following section provides brief explanations of the main theories; it should be noted that the theories of CSR could not be limited with the followings:

Instrumental theory

An essential perspective on CSR is the instrumental theory, which argues that socially responsible activities can improve the image of companies with no harm to the interest of shareholders. This theory has several well-known proponents, including Burke and Logsdon (1996), Fombrum *et al*. (2000), Johnson (2003), and Garriga and Melé (2004).

Stakeholder theory

The role of stakeholders in reference to CSR practice is very important. The perception of stakeholders can determine the success and failure of an organization. This may explain the fact that stakeholder theory is one of the crucial and popular theories on CSR. In this approach, the moral and ethical aspects are emphasized alongside the business case for engaging in CSR (Donaldson and Preston, 1995 cited in McWilliams *et al*., 2006: 3, 7).

This theory highlights the importance of all the stakeholders for an organization, all of whom seek different outcomes; the aim of the owners of the organization is profit maximisation, employees want a decent job with an excellent wages, suppliers look for a smooth business flow, customers wants an excellent high quality products and a high standards services whilst society expects the organization to fulfil all of the above in addition to paying taxes and protecting the environment from pollution. Furthermore, this theory helps to identify which social problems, needs, and interests that an organization needs to address in order to maintain a good image and support by the relevant stakeholder groups (Dusuki, 2005: 31).

Legitimacy theory

This theory stresses that CSR is a response to environmental pressures involving social, political and economic forces (Dusuki, 2005: 11). Therefore, firms ought to undertake ethical and socially responsible behaviours in order to carry on expanding or else society may jeopardize the survival of the firm (Davies, 1997).

2.3 A LITERATURE SURVEY ON CG THROUGH CONVENTIONAL PERSPECTIVES

CG refers to the way in which a firm or organisation is structured and managed, and how the relationships between different levels within an organization and with other stakeholders externally are arranged. Since CG emerged as an essential practice area during 1980s, various sets of definitions have been applied to the concept based on the perspective of the person utilizing the concept and how they apply it. In a broader sense CG is defined as a combination of regulations, laws, rules and other activities that allow a firm to meet its legal obligations and general expectations in order to attract capital and perform efficiently (Gregory and Simms, 1999: 2).

There is a clear similarity between several definitions of CG. According to the OECD (2012: 5) report, CG structure specifies the distributions of rights and responsibilities amongst different participants in the corporations as it provides the basic guidelines and procedures for decision making to meet the firm's objectives. Additionally, McRitchie (1999: 8) define CG as both the structure and relationship that determines corporate direction and performance. The International Chamber of Commerce, however, defines CG as a relationship matter, and that the BOD is accountable for the firm's objectives as the firm itself conforms to the regulations and laws (Asutay, 2013: 3). Although, it is challenging to establish a common definition of CG it can be argued that there is a pattern to these definitions and that corporation and financial institutions all work towards the well-being, social and environmental good of society. Moreover, the main concern of a financial institution is achieving trustworthiness towards its stakeholders including shareholders; hence, a corporation can then fulfil its general expectations and legal obligations (Gregory and Simms, 1999: 3).

2.3.1 Corporate Governance Models

It is essential to highlight the main two CG systems, the Anglo-Saxon model and the European model, when discussing CG models. The Anglo-Saxon model is the dominate model and is adopted by most European countries. However, the majority of Islamic banks and institutions are in emerging markets, in which most governance institutions are not yet fully developed. In addition, the countries suffer from corruption, weak markets, poor accounting practices and a weak government.

These two main models are described as follows:

The Anglo-Saxon model

One of the most dominant CG systems is the Anglo-Saxon model which follows the classical liberal view of Smithian views on capitalism. This model is based on the relationship between shareholders and managers, and the belief that government should only interfere when necessary. The model is reinforced by the agency theory, which is developed in the free market economy framework (Cernat, 2004; Clarke and Chanlat, 2009).

This model is known as profit-oriented behaviour in which the BOD supports the owners. It is based on the ‘fiduciary’ principle of the relationship between the mangers and shareholders. In terms of CG, the Angelo-Saxon model is mainly concerned with the protection and interest of the shareholders. However, profit-oriented behaviour is a set of appropriate institutions to enhance their effectiveness in the Anglo-Saxon model. In the continental tradition, the company has an independent will; however, in theory what is good for the corporations might not be good for their shareholders. These differences penetrate to company law particulars such as shareholder rights, the role of statutory capital and the responsibility of the board (Cerant, 2010: 5)

Furthermore, this model is well designed for protecting the rights of the shareholders, management and the BOD (Gracis, 2008: 24). The Anglo-Saxon model has a different set of regulations from the European model, which is discussed in the next section. Overall, the market-based model has no “supervisory boards, the power of employees is limited, its institutional portfolio investors are powerful, capital markets are strong and take over activates are common” (Clarke, 2009).

European model

The European Model of CG can be seen as superior to Anglo-Saxon model (Wojcik, 2002), which is based on the German economic model, which has been the strongest economy in Europe with its unique nature of adopting a broader view than just the profit motive including the relationship built between banks, corporations and other firms. There is a distinctive separation between the responsibilities and duties of the supervisory board and the management in the European model. The Anglo-Saxon model which does not have a supervisory board and therefore limits the power of its employees. Additionally, Clark (209: 159) states that another characteristic of the German model is its egalitarian approach, which is also known as the Rhineland Capitalism. It is concerned with management objectives, long-term returns and consistent growth and stability. Thus, this model is based on stakeholder model in which internal and external stakeholders beyond shareholders are considered as part of an organisation.

2.3.2. Corporate Governance Theories

After presenting the leading models in CG, this section presents the theories which shaped the models described above.

Agency theory

One of the main models of GC, the Anglo-Saxon model, is based on agency theory since as agency theory is characterized by the separation of the management and the ownership (Davis, Schoorman and Donaldson, 1997). Agency simply implies that the relationship between the principles 'stockholders' and agent 'managers' is one in which the latter represent the interests of the former in running the business. However, rather than acting in the interest of the firm "self-interested opportunistic agents" require a supervisory board to solve any problems of conflict of interest that occur (Lewis, 2005: 14).

Fama and Jensen (1983) state that the agency theory is based on the idea that agents do not own the resources of the company but have the ability to manage a firm through their skills. In turn, the agents have different incentives from maximizing the shareholders' returns (Donaldson and Davis, 1991). Consequently, there is clearly a conflict of interest between the principle and the agent; for example, managers may act in their own best interests rather than maximizing shareholder wealth. These problems are exacerbated by asymmetric information and the cost of monitoring.

Asymmetric information occurs when the managers happen to have more information than shareholder. Thus, Amihud and Lev (1981) argue that agents may follow certain policies in order to reduce the employment risk because of the asymmetric information. The goal of owner/shareholder of a business is to see the value of his/her wealth increase. In contrast, managers do not necessarily have the same incentives but may seek to increase their own interest using the shareholders' money. Managers may have access to private jets or be members of other corporations, which may not necessary benefit the shareholders but will benefit the managers. Thus, agents may jeopardize the power given to them and act against the interest of the principle (Jensen and Meckling, 1976). However, Donaldson and Davis (1981) believe that managers do act in accordance with the interest of the shareholders.

Stewardship theory

Stewardship theory argues that the board and the management are a single collective stewardship team at the top of a corporation as it regards people to be trustworthy and responsible. Thus, the role of the board is not to direct and control the corporation but to support and assist the CEO and management team in accomplishing their goals, while managers are supportive and keen to perform in the best interest of their principles 'the shareholders' (Donaldson and Davis, 1989). A greater emphasis is placed by Stewardship theory on managers who aim not only aim to benefit themselves but also stockholders by improving the corporation's performance. Therefore, "given the needs of managers for responsible, self directed work, organizations may be better served to free managers from subservience to non-executive director dominated boards" (Donaldson and Davis, 1994).

Stakeholder theory

Stakeholder theory is concerned with organizational management and ethics (Phillips, 2003). It is believed that for any business to be successful it has to create value for customers, suppliers, employees, community and financier shareholders banks and other people with the money invested.

Therefore, it is impossible to view any stakeholder in isolation; their interests have to be combined. Thus, the job of a manager is to figure out how the interest of these stakeholders can be achieved. There are several definitions of Stakeholder Theory. Friedman (1967: 46) gives a broad definition: "stakeholders are any group of individuals who can affect the achievement of an organization's objectives". In other words, a stakeholder is any group of individuals who can affect or be affected by a company's purpose. However, this definition is controversial because some may argue that everyone should be included because anyone can affect a company. Clarkson (1994) presents a different approach, as he argues that the firm is a system of stakeholders, which operates within a broader system of the society, which provides the necessary legal and market infrastructures for the firm's activities.

Stakeholder theory argues that focusing only on bankers and investors in a company may lead to missing what makes capitalism tick. The idea behind capitalism in this sense is that all of the stakeholders can work together. Blair (1995) supports

Clarkson's approach that the main objective of management is to increase the wealth creation by firm. He argues that for this objective to be achieved stakeholder groups are vital as they can affect how you create value for customers, suppliers, employees, community and financiers.

However, the issue of whether firms ought to be concerned about the interest of stakeholders rather than only shareholders is controversial. Since stakeholder theory has been adopted in a number of European countries, such as Greece, Germany, France and Spain, it is important to discuss the ethical, management and business perspectives of the theory. Jensen (2002: 302) states that although stakeholder theory aims to combine the interests of stakeholders, it is still seen as an obstacle to maximize the interest of the stakeholders when there is a conflict of interest. However, it is not only important to look at maximizing the interests of the stakeholders but also maximizing the firm to creating a better society. In a moral and ethical sense, Jensen (2002: 302) states that: "the intuition behind this criterion is simply that (social) value is created when a firm produces an output or set of output that are valued by its customers at more than the value of the inputs it consumes (as valued by their suppliers) in such production. Firm value is simply the long-term market value of this stream of benefit.

Transaction cost economics theory

Transaction cost economics theory (TCE) was introduced by Coase who assesses the nature of firm and organization not only by studying the behaviour of these firms but also by examining the reason behind having these firms in the first place. TCE Theory is an example of the agency problem and is "derived from an inter-disciplinary of law, economics and organizations as it is concerned with governance of contractual relations in transactions between two parties" (Coase, 1937:398).

Class hegemony theory and managerial hegemony theory

In addition to the above theories, this should be discussed as it summarizes the overall concept of the function of the CG and the relationship behind the rules and regulations of who is responsible for what and identifying the cost to the company. Class Hegemony Theory gives responsibility to the directors, in contrast to Managerial Hegemony Theory, which gives management enough trust to maintain their daily operations. Eisenhardt (1989) states that is the development of asymmetric information between directors, management and shareholders that gives managers control over the board which leaves the board with in a weak position when representing the shareholders' interests.

After presenting the conventional perspectives on CSR and CG, the following section discusses the Islamic equivalent of these concepts.

2.4. ISLAMIC MORAL ECONOMY AS THE BASE OF ISLAMIC CSR AND CG

This section presents a possible conceptual framework of CSR and CG in Islam. It locates CSR and CG within the ethical belief and moral values of Islam, as the Islamic moral economy suggests that all agents adopt ethical behaviours, which lead to social good through social justice and responsibility. Thus, axiomatic approach, which is presented below, is considered to be "a crucial initial step in any model development in Islamic economics" (Haneef, 2005: 7). The main axioms are: encompassing unity *(tawhid),* social justice and beneficence (*adalah* and *ihsan*)*,* free will (*ikhtiyar*), mandatory responsibilities (*fardh* actions), growth in harmony (*tazkiyah*) and perfection oriented development path (*rububiyah*). All these axioms can be generated from and within the ethical statements and norms in the *Qur'an* and *Sunnah.* Based on these axioms a CSR and CG framework can be developed to provide rationale as to why Islamic banks should be socially responsible and should have a good practice in CG (Naqvi, 1981: 2).

In order to construct a more coherent argument about CSR and CG within Islamic teaching, the next section presents the foundational axioms of Islamic moral economy by which it is possible to rationalize and systematize an Islamic CSR and CG framework.

Tawhid (Encompassing Unity)

The most fundamental of the ethical notions in Islam comes from faith in God which is articulated with the understanding that everything in life is connected through the creator and therefore they have to be understood within the encompassing unity (*tawhid*)*.* Therefore, the rest of the axioms of Islamic principles and religious ethics are derived from the concept of *tawhid* (Naqvi, 1981: 2). Such an encompassing ethical system, through *maqasid al-Shari'ah* (objective of *Shari'ah*), which is interpreted as 'human well-being', incorporates every aspect of individual behaviour in daily life.

The concept of unity, therefore, represents the core of the Islamic faith and the belief that there is only one God who is worth worshiping and submitting to *Allah's* will. People are free in their political, social and economic endeavours but bound by the *Shari'ah.* Thus, any economic system that breaches human's well-being is fraudulent, while attempts to implement *riba* (usury) or any form of economic and financial practice that contradicts with the *Shari'ah's* system, cannot contribute to the Islamic social system (Mohammed, 2007: 111).

The next section highlights how the concept of *tawhid* integrates the political, social, economic and religious aspects of humankind and determines the relationship between *Allah* and his vice-regency (*khalifah*) or humans on earth through articulating other axioms.

***Rububiyyah* (Oneness of God)**

The axiom of *rububiyyah* (the oneness of God) is probably the second most important concept or axiom in terms of the development of Islamic moral economy, because it refers to the economic, social, human and environmental development. Hence, *rububiyyah* is seen as another element of *tawhid*. In terms of *rububiyyah,* Asutay (2012: 105) argues that since CSR and good CG practice is "an inherited part of IBF [Islamic banks and financial institutions], as IME principles and foundational axioms directly refer to CSR related activities. In other words, by definition and construct IBF has to comply with CSR [and CG] expectations".

Al'Adl (Justice)

The concept of *al'adl* (justice) in Islam is another foundational axiom related to the concept of *tawhid* and is concerned with the expectation that the doctrine of justice should dominate all aspects of human life on earth. Hence, justice is seen as an integral part of the social, economic and political process in Islam (Ahmed, 2003: 51).

Additionally, Chapra (1992: 209) states that "it is impossible to conceive of an ideal Muslim society where justice has not been established".

Therefore, Islam places significant emphasis on the important feature of economic behaviour, namely justice, which can be thought of as the obligation of humans towards their communal responsibility, as mentioned in several verses in the *Qur'an* (MacAuliffe, 2002: 5). Thus, in the economic sphere, one important element of Islam is that social justice should be part of all of economic activities, such as the acquisition of wealth, production, consumption, and regulation through transactions. Thus, elements such as interest (*riba*)*,* gambling (*maysir*) and excessive uncertainty (*gharar*) are prohibited as they lead to inequity (Iqbal, 1981: 31).

The understating of the notion that mankind is the *khalifah* of *Allah* on earth necessitates that humans ought to reflect *al'adl* or social justice and thus maintain justice in society and in all the socioeconomic affairs. Humans ought to be treated respectfully and their dignity be protected from any form of inequality or discrimination socially. The axiom of justice creates balance and harmony in society, which is consistent in the Islamic social system *maqasid Al Shari'ah* that leads to the well-being (*falah*) of humans and allow them to live a decent life (*hayat tayyibah*) (Chapra, 1992: 8).

Thus, businesses in Islam should practice distributive justice within the socioeconomic environment as part of the CSR and CG practices. According to Chapra (1992: 210), "this is the raison d'être of society itself". Muslim scholars and Islamic jurists agree that it is the responsibility of humans to look after the poor and to ensure that others are treated fairly, for example by maintaining fairness in wage distribution. This highlights the importance to protect the needy in society (Siddiqi, 1995: 9). The Islamic attitude towards justice, hence, requires that all segments of society contribute to the needs of the poor. Thus by performing *zakat* people are fulfilling their duties towards maintaining justice and equality.

Ikhtiyar (Free will)

The axiom of free will can be defined as the ability of individual to make choices and take decisions in certain situations; this can be seen on several verses in the *Qur'an* and *hadith* (Naqvi, 1981). It should be noted that Hayek (1948: 20) stated that people ought to have the free will to choose as "no one individual has the exclusive right to reason, and hence what is best can be discovered only by a process of trial and error". This can be interpreted in the classical economic model, which is best seen through the market behaviour of the individual.

According to western social philosophy, people are not limited in their rights and authority over private property, which may allow them to maximise their utility. However, from the Islamic perspective people are restricted as all property belongs to *Allah;* therefore, people do not have *spiritual* right to what they earn or inherit (Mohammed, 2007: 132). In summary, people are bound to act and behave according to *Allah's* commandments to avoid punishment and gain reward in this life and in the hereafter. For that reason, people should fulfil their obligations and act socially responsible in order to contribute to the well-being of society and safeguard the welfare of society. Hence, Islam provides people with laws and discipline towards fulfilling their obligations and to act in a socially responsible manner and to contribute towards the wellbeing of society.

Fardh (Responsibility)

In this section, *fardh* (mandatory responsibility), which relates to the concept of free will in that they both represent a balance to each other, is discussed. This axiom simply identifies that in the working of an economic order, social good cannot be left to voluntary action, otherwise people, being rational individuals, may not fulfil such expectations. Therefore, Islam complements voluntary action with mandatory responsibility in order that the social good can be achieved and social justice can be delivered. The axiom of responsibility distinguishes itself from the other ethical axioms given the fact that the rest of the axioms consequent on unity and free will.

Asutay (2012: 109) places great emphasis on the concepts of social good, social justice and moral oriented developmentalism. The act of *zakat* (charity), as Asutay (2012:93) states is that "funds should be created with the objective of serving the social and developmental needs of Muslim societies". According to one of the prophet's *hadith*, charity can be defined as giving some of one's earnings and property to the needy as a symbol of love, respect, such as *zakah*, the third pillar of Islam, which is regarded as a religious tax, paid by Muslims who have wealth above a certain limit, at a rate fixed by *Shari'ah* (Abbasi, 2012: 122). Thus, it is the responsibility of each individual to pay charity for the poor in society.

The act of *zakat* builds a trusting relationship as it encourages the wealthy to share their wealth with others and at the same time feel that they are fulfilling *Allah's* commandments.

Although the responsibility of businesspeople from an Islamic perspective is discussed in the above section, it is important to further illustrate their role in society in relation to this axiom. It is believed that in a Muslim society, it is the responsibility of businesses to make profit legally and to avoid paying/charging *riba* (interest) (Ahmed, 2003: 60). Islam makes society the prime responsibility for businesses and then individuals. It is clear that the concept of responsibility, as with the other axioms, is integrated into society and seen as the core value of CSR in Islam. In order to demonstrate this argument, Islam encourages individuals and financial institutions to make profit but also condemns greed. Thus, paying *zakat* allows businesses and businesspeople to make profits while fulfilling the responsibility of social obligations.

Tazkiyyah (Growth and development)

The axiom of *tazkiyyah* "calls for growth with purification that should incorporate the good of others and be conducted with ethical and moral considerations" (Asutay, 2007: 170). The core value of the concept behind *tazkiyyah* is to "over come the conflict between individuals and society" (Asutay, 2012: 95). As is argued by Asutay (2007) the understanding of *tazkiyyah* encourages development, growth and self-purification; hence, it is aimed to achieve spiritual and moral development, in addition to achieving self-purification. Thus, it directly indicates that CSR and developing good CG practice is an essential and integrated part of Islamic moral economy as also suggested by *tazkiyah*.

In concluding the axiomatic approach in rationalising and systemising the Islamic CSR and CG practice, as explained the Islamic economic system aims at the development of moral-oriented economy in the Islamic world (Siddiqi, 1981;Al-Ghazali, 1994; Naqvi, 1994; Chapra. 2002; Sirageldin, 2002). Thus, the Islamic moral economy evidently has a different agenda from the conventional economic system, which is, based primarily on maximizing its profit. In summary, the ethical axioms of

Islam that have been discussed refer to peoples' relationships with *Allah*, as an individual or from a broader concept the universe. Islam aims to create a responsible person who behaves justly and is considerate towards the socioeconomic environment for which they responsible. This makes CSR and CG practices as an integral part and parcels of Islamic institutions rather than exogenous institutions and practices.

2.5 ISLAMIC PERSPECTIVES AND MODELS ON CSR

Asutay (2007: 171) states "Islamic economics aimed at a world order, where the ontological and epistemological sources, the *Qu'ran* and *hadith,* determine the framework of the economic value system, the operational dimension of the economy and also the economic and financial norms of the individual Muslims". Therefore, it can be argued that Islamic banking by definition has to be social responsibly. Therefore, the concept of CSR is vital for Islamic banks, which are expected to define their objective functions beyond maximizing their wealth in line with Islamic principles.

The operations of Islamic and conventional western banks may be different. However, certain ethical western banks have a number of similar dimensions of CSR to that of Islamic banks; for example, good practices on human resources, human rights, environmental and philanthropic engagement. Dusuki (2005: 85) states that these dimensions are consistent with Islamic teachings and the spirit of the *Qu'ran* and *Sunnah*.

The conceptual framework of CSR in Islam is measured against two elements, financial and social. The former is concerned with profit-making and latter with the means of achieving social good. The *maqasid al Shari'ah* suggests that Islamic financial institutions are expected to promote strong moral values and therefore contribute to socio-economic development. This is based on the belief that business has a responsibility towards society which includes not harming individuals, society and the environment in general and, thus, responding to the well-being of others.

Ethical and social responsibility has been an important part of Islamic business and finance since the revelation of *Qur'an* more than 14 centuries ago. Therefore, despite the contemporary nature of CSR as a concept, it is rooted in the ontology and history of Islam, as the *Shari'ah* determines the outlines of all aspects of well-being including businesses and society. Mohammed (2007: 96) in an attempt to justify the Islamic origins of CSR suggests that since the Prophet Muhammad's time CSR was conducted in all sphere of life. This can be seen in the practices of the Prophet and his companions as to how they adopted and applied social responsibilities in their daily life as well as in delivering their duties.

As for the models of Islamic CSR, when discussing the Islamic banking system it is essential to recognize its main goal is different from the conventional banking system, as its aim is not restricted to profit maximization. The conventional banking system operates in the dominant capitalist economic system but on the capitalist ideology, which is considered having 'moral deficiency'. Therefore, society and the economic system require having an ethical frame based on values and norms in order to remind us of our societal obligations and to encourage us to act in a responsible way towards society, employees, environment *etc*. Therefore, as stated by Al-Zuhayli (2003: 350) "The primary goal of Islamic financial institutions is not profit-making, but the endorsement of (the) social goals of socio-economic development and the alleviation of poverty".

As part of such ethical foundation and perspectives, various models of Islamic CSR has been developed in the literature, which are presented as follows:

Chapra's Model

Chapra's model asserts that although Islamic banks ought to maximize profit as conventional banks do, they have to achieve their Islamic economic objectives by "including social justice, equitable distribution of income and wealth and promoting economic development" (cited by Lewis and Algaoud, 2005: 9). Academics, such as Dusuki (2005: 82) and Siddiqi (2001: 52) believe that equality based banking is the core value of an Islamic banking system, which differs it from the conventional banking system. The socioeconomic goals of social justice, equality and economic growth are best achieved through equality-based system. Furthermore, this model reflects *Shari'ah*.

Dusuki (2005: 82) states "the primary goal of Islamic financial institutions is not profit making, but the endorsement of social goals of socio economic development and the alleviation of poverty... Islamic financial institutions attempt to link the economic and social development goals in a harmonized overall framework based on Islamic teaching. They avoid excessive speculative or untruthful transactions, which can have an adverse economic and social effect on the nation". Thus, Islamic banks are required to make profit on the basis of contributing and using this profit for the development of the social well-being.

Ismail's model

Ismail have presented a similar model to Chapra's, but placed a greater emphasis on the behaviour of Islamic banks and suggested that Islamic banks have to make profits, albeit in accordance with *Shari'ah* (Ismail, 2002). As discussed previously Ismail's main argument is that financial institution and banks ought to act responsibly towards its stakeholders in order to achieve the Islamic socioeconomic objective of promoting equality and social justice.

Given the fact that Islamic banks obligatory pay *zakat* as part of their social welfare, Ismail argues that other social contributions to society are irrelevant and unnecessary. In this context, Dusuki (2007: 32) posits that having a responsibility towards their shareholder and depositor should be the banks' main responsibility and they should not to be concerned with other social responsibility within their environment. Therefore, this model views IFIs as commercial institutions and that the primary aim is profit maximization but still operating in accordance with the *shari'ah* (Sairally, 2006: 67).

2.6. ISLAMIC CG: DEFINITION, DESCRIPTION AND CONCEPTUAL DEVELOPMENT OF CG

It has been argued that Islamic economic operations and transactions are known for being ethical and are bound by the *Shari'ah* frame. In line with this, in developinga frame for Islamic CG, Lewis (2005: 19) placed great emphasis on the issue of *shura* (consultation) and ensuring that decisions are made in compliance with *Shari'ah.* In representing Islamic GC he stated that "since the Holy *Qur'an* clearly mandates that any decision involving more than one party requires access and consultation on the basis of principles of *shura*, Islam encourages the participants to work together freely and frankly when arriving at decisions. Institution of a *shuratic* decision-making process explains how decision-making in business and other activities can meet Islamic moral values" Lewis (2005: 16).

As is illustrated in the CSR section, the ultimate goal of Islamic economy is to establish a balanced society which is just, fair and trustworthy in terms of the socioeconomic welfare of society. Thus, all its institutions, financial and non-financial, are obliged to fulfil these morals in response to *maqasid Al Shari'ah*; which also impacts the CG.

According to the Islamic ontology Islamic CG is formed and determined by the nature of the structure of Islam. The main framework of CG in Islam is articulated in the ethical and moral concepts of *Shari'ah, shura* and *tawhid* (Lewis, 2005: 19), as identified by the Islamic moral economy precepts discussed above. The CG model in Islam is mainly concerned about the equal protection of the stakeholder's rights regardless of whether or not they hold shares, not just protecting the interest of the shareholders. Therefore, it is vital to discuss the CG models from an Islamic perspective and observe how IFIs adopt these models in their operations.

However, Haniffa and Hudaib (2007) argues that there are several obstacles from an Islamic point of view regardless of the ethical concept of CG. First, the main source of authority in Islam is based on *shari'ah*, which differs from western sources of authority, which are mainly derived from 'secular humanist' social authority. Second, western corporates, firms and other financial institutions are strongly rooted in self-interest rather than in the interest of the community and the society. Finally, the overall CG model is integrated in Agency Theory, which concerns the relationship between stakeholders and the management rather than stewardship theory (Davis et al., 1997).

The following section summarises the main pillars of Islamic CG within the defined Islamic moral economy's axiomatic framework.

***Shari'ah* Governance**

Shari'ah governance is a set of organizational arrangements, which are specific to IFIs and primarily ensure that all internal and external practices and operations are within *Shari'ah* compliance. This results in the need for a *Shari'ah* Supervisory Board

(SSB), which can ensure control and justice in financial transactions in each of the IFIs. The SSB increases confidence and trust in the IFIs with respect to their compliance to *Shari'ah* principles and ensures that all internal and external operations are *Shari'ah* compliant.

In addition, Islamic CG refers to stakeholders type governance mechanism by which all the stakeholders' interest must be considered in articulating a best practice of CG. This is defined by Islamic moral economy, axiomatic approach of which discussed above.

Shura

The concept of *shura* means consultation and seeking the opinions of others to reach a decision that will eventually reflect on the social well-being of the society, firm *etc*. Baydoun (1999) argues that the process of decision-making according to *shura* is a way of explaining how IFIs and other firms act and carry out their activities in a way that would meet Islamic ethical principles for every member of the firm ought to contribute to fulfil the firm's goals, objectives and vision. Additionally, Zulkifli (2008: 11) states that since stakeholders are seen as the vice-regent of *Allah* on earth they have a crucial role to play and that is to sustain the value of "distributive justice via the *Shuratic* process". In other words, stakeholders are required to practice *shura* and since they participate heavily in decision-making this allows them to contribute more to state affairs, firms, corporations and other financial institution.

Independence of the SSB

Members of the SSB are appointed by the shareholders as part of the internal GC in IFIs in order to ensure that all actions and operations are carried out in compliance with *shari'ah* and to protect the rights and interest of the stakeholders and depositors. Hence, their independence should be dominant (Grais and Pellegrini, 2006: 21). The main role of SSB in IFIs is to review all the BOD decisions and financing proposals and to ensure they are *shari'ah* compliant. However, Korshid (2012: 9) argues that there have been several problems that occur in relation to the *Shari'ah* scholars. These scholars are represented on more than 64 boards of different banks. Thus, it may be argued that these IFIs and banks may be only using the name of the scholars in order to avoid conflicts. The number of meetings that these *Shari'ah* scholars attend is not disclosed (Korshid, 2012: 10).

Competence

The issue of competency is important given the limited number of *Shari'ah* scholars who are expert in law and finance. They are expected to be extremely knowledgeable about finance and Islamic finance. The SSB committee members also ought to have relevant training courses and programmes. *Shari'ah* scholars who are meant to bear responsibilities for CG in Islamic banks, firms and other institutions ought to have the competency and utilize all their knowledge to serve these IFIs and to be familiar with *Shari'ah* updates within Islamic finance (NMB, 2012/2013: 17).

Disclosure

The majority of Islamic banks including in the Gulf region are not fully developed, since they are headquartered in emerging markets, which suffer from political and economic corruption. As a result, these countries set insufficient disclosure levels. Hence, "information relating to *Shariah* advisory functions would strengthen the credibility that the offered services are essentially distinct from conventional ones and, furthermore, promote market discipline" (Grais and Pellegrini, 2006: 21).

Confidentially and Consistency

In regard to the issue of confidentiality, given nature of their field members of the SSB are able to access confidential materials and information on competitive IFIs in the market. Thus, Islamic banks should not appoint members of its SSB to other Islamic banks in order to avoid conflict of interest. The issue of consistency refers to the consistency of *Shari'ah* decision-making. The committee of the SSB should act in a way that is effective and sufficient to maintain consumer confidence (Grais and Pellegrini, 2006: 19).

2.7 CONCLUSION

The preceding discussion surveyed the available body of knowledge in relation to CSR and CG through conventional and Islamic perspectives. The distinction mainly relates to the source of knowledge and practice; Islamic source of knowledge is divine sources which shapes the nature of practice with the objective of developing Islamic moral economy based CSR and CG. Based on such substantiation, this research aims to explore the every day Islamic banking for their practice of CSR and CG as documented through the annual reports, which constitute the main aim of this study.

Chapter 3

RESEARCH METHODOLOGY

3.1. INTRODUCTION

The previous chapter reviews and analyses the literature on CSR and CG disclosure in Islamic banks. This chapter discusses the research methodology for measuring the CSR and CG disclosure performance of the major 15 Islamic banks in the Gulf region through the examination of the ‘ethicality index’. This is achieved by examining the CSR and the CG communicated in the annual reports of these banks. In doing so, this chapter discusses the research methods, strategy, design, sampling, analysis, limitations and difficulties. In other words, this chapter helps to construct and choose the appropriate research design and methodology that is utilized in this research.

3.2. RESEARCH METHODOLOGY

The research methodology can be approached on a number of axes: it can be quantitative and/or qualitative; applied or basic; and deductive or inductive. In general, research methodology can be described in a functional manner as “how a researcher can go forward to study a phenomenon properly” (Asutay, 2007: 3). Thus, research methodology in a practical manner helps to examine and evaluate the effectiveness of a certain theory about society.

Since this research is based on the information disclosed in the annual reports the study is based on a qualitative research methodology. Parkinson and Drislane describe qualitative research as “using methods such as participant observation or case studies which result in a narrative, descriptive account of a setting or practice” (2011: 2). In referring to the social constructivist nature of qualitative research, this research aims to measure the CSR practices, understanding, behaviours and perceptions through the information disclosed in the GCC Islamic banks annual reports.

3.3. RESEARCH STRATEGY

To conduct a well-structured research it is essential to adopt a certain type of research strategy depending on the tested hypothesis. There are two reasons for conducting research; either to fill a knowledge gap or to solve a problem. This research aims to fill a gap by providing a case-based research. (Timothy J and Yair Levy, 2008)

There are several definitions of research strategy: Saunders *et al.* define research strategy as "the general plan of how the researcher will go about answering the research questions" (2009: 600). Thus, in any social sciences research, research strategy works as a guideline to the research process in order to achieve the overall objective of the researched hypothesis. There are two main types of approaches that a researcher can adopt depending on the research type: deductive and inductive strategy.

Inductive research is seen as "a study in which theory is developed from observation of empirical reality; thus general inferences are induced from particular instances" (Saunders *et al.*, 2007: 117). Thus, the inductive approach works on first collecting the data, then developing a hypothesis from the data collected. Moreover, Blaxter *et al.* state that the inductive approach "involves in depth understanding and competent knowledge about the research idea, which allows the researcher to reveal different alternative explanations of the problem" (2006: 71). In addition, Saunders *et al.* (2009) argue that the inductive approach involves a degree of ambiguity in the research, since in the inductive approach the researcher starts with a specific hypothesis and moves into a general theory (Blaikie, 2007).

Deductive reasoning has been the most popular approach in conducting scientific research. Miller states in deductive analysis "the research is testing whether a hypothesis is correct or not and hence the researcher moves from the general to the specific" (1998: 5). The researcher, therefore, starts with a general spectrum of content and limits it down to specific conclusion based on the tested hypothesis.

In short, the difference between the inductive and the deductive approach is on how the hypothesis is reached whilst conducting a research.

Accordingly, the strategy pursued in this research is the deductive approach since the aim is to test a hypothesis, which necessitates moving from general theory to a specific conclusion.

3.4. RESEARCH DESIGN

Research design sets out the structure of the study in terms of how the data is collected, the rationale behind the data collection method and what difficulties were faced by the researcher while conducting the research (Saunders *et al.*, 2007: 131). Similarly, Hussey and Hussey state that "research design is the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data" (1997: 54), while Cooper and Schindler consider that research design is seen as the "blueprint for the collection, measurement, and analysis of data" (2011: 147).

Within such a definition, there are several types of design for each research: it is either based on exploratory studies or formal study, as well as other elements such as descriptive research, historical research, correlational study and experimental research. Therefore, researchers must choose the appropriate research design in order to develop a comprehensive understanding of the study.

Hence, it is important to explain the reason for choosing an exploratory research design when measuring CSR and CG in Islamic banks. According to Cooper and Schindler (2011: 148), most research studies in the social sciences are exploratory. Exploratory study is seen as a research that requires in-depth study of the literature in order to identify the key variable issues of the study to develop a better understanding of the research question. An explanatory study begins by testing the hypothesis in order to explore the relationship or casualty between two or more variables to finally result with an observed analysis.

In contrast the formal case study "begins with a descriptive account of the current situation followed by the hypotheses or research question" (Cooper and Schindler, 2011: 148). Moreover, if answering the 'how' and 'why' questions which could be associated with a specific case study drawback. Descriptive study is used if the research purpose is to present a description of the relationship between different variables and how a variable can affect another variable. In other words, it is the use of data, literature and studies to further explain a research problem (Yin, 2003).

According to Baily (1978), the two remaining research designs are unique since each has its own purpose when conducting a study. Thus, Wiersma defines historical design as "an original or first-hand account of the event or experience" (1995: 234). In other words, it is a type of research that utilizes past research, events, and primary or secondary data to establish a new hypothesis. Whereas, the correlational study can be defined as examining the relationship between two variables, while the classical experimental research design enables the researcher to examine if one or two variables may affect the part or all the results of the study (Baily, 1978).

Since this study aims at measuring the CSR and CG disclosure performance of the GCC Islamic banks, it is designed as an explanatory case study.

3.5. RESEARCH METHOD

Research method is defined as "a technique for collecting data. It can include instruments, such as questionnaire, or a structured interview, or participant observation in which a research listens and watches others" (Bryman, 2001: 27). Depending on the research questions and the aims of the research, the research method can either be quantitative or qualitative. According to Cooper and Schindler, the quantitative research method can be defined as "relying on quantitative information (*i.e.* numbers and figures), while qualitative studies base their accounts on qualitative information (*i.e.* words, sentences and narratives)" (2011: 144). In other words, when the aim is to explore, qualitative method oriented data is collected; however, when the research aim is to evaluate and examine, then quantitative method oriented data is collected. The data analysis method in the form of quantitative and qualitative method is, then, determined by the nature of data as well as the research questions.

Since the main objectives of this study are to empirically evaluate the CSR and CG disclosure performance of the selected GCC Islamic banks and to establish if there is any correlation and potential causality between CSR and CG performance through respective disclosure indices scores, it will benefit from a quantitative research method. The data is collected through the qualitative method of content analysis, which is based on the communicated information in the annual reports of the sampled

GCC Islamic banks. This research, hence, transforms the qualitatively collected data through content analysis into quantitative data for analysis by coding the categories in the transformation process.

3.5.1. Sampling

The sampled banks for this study have been chosen from five countries in the GCC: Qatar, UAE, Kuwait, Saudi Arabia and Bahrain. The banks selected are the major Islamic banks in terms of their asset size; and their annual reports were collected for 5 years from 2008 to 2012. A total of 3 Islamic banks were sampled from each country, making a total sample of 15 (see Table 3.1). This means that 75 annual reports are sampled for content analysis.

Table 3.1: Sampled Banks

Bahrain	Kuwait	Qatar	Saudi Arabia	UAE
Ithmar	KFH	QIB	AlRajhi	Dubai Islamic Bank (DIB)
Al Baraka	KIB	IIB	AlJazira	Abu Dhabi Islamic Bank (ADIB)
ABC	Boubyan	MR	Alinma	Emirates Islamic Bank (EIB)

3.5.2. Data Collection Method

The data collected from the annual reports were analysed using content analysis, which involves particular techniques such as coding the text and analysing it through statistical analysis (Krippendorff, 1980: 18). The text was according to the, individual indices that were developed for CSR and CG disclosures through the dimensions developed from the international Islamic finance standards such as IFSB and AAOIFI. The indices with their dimensions and statements can be found in Table 3.2. As can be seen, under CSR disclosure index, there are ten dimensions with a total of 82 statements; and 96 statements under nine dimensions for the GC Disclosure index.

Table 3.2: Index for CSR and CG Disclosure Performance

Islamic CSR Dimensions	
	Mission and Vision Statement
1	Commitments to operate within *Shari'ah* principles/ideals
2	Commitments to provide returns within *Shari'ah* principles/ideals
3	Focus on maximizing shareholders returns
4	Current and future directions in serving the needs of Muslim communities
5	Commitments to engage in investment activities that comply with *Shari'ah* principles
6	Commitments to engage in financing activities that comply with *Shari'ah* principles
7	Commitments to fulfil contractual relationships with various stakeholders via contract (*'uqud*) statements
8	Appreciation to stakeholders and customers

BOD and Top Management	
1	Names of board members
2	Positions of board members
3	Pictures of board members
4	Profile of board members
5	Shareholdings of board members
6	Multiple-directorships exist among board members
7	Membership of audit committees
8	Board composition: executive vs non-executive
9	Role duality: CEO is Chairman of board
10	Names of management team
11	Positions of management team
12	Pictures of management team
13	Profile of management team

Theme: interest-free and Islamically acceptable ideals	
Products and Services	
1	No involvement in non-permissible activities
2	Involvement in non-permissible activities-% of profit
3	Reason for involvement in non-permissible activities
4	Handling of non-permissible activities
5	Introduced new product
6	Approval ex ante by SSB for new product
7	Basis of *Shari'ah* concept in approving new product
8	Glossary/definition of products
9	Investment activities–general
10	Financing projects–general

Theme: Developmental and Social Goals	
***Zakah*, Charity, Benevolent Funds and Other Strategic Social Development**	
Theme: underlying philosophy and values	
1	Bank liable for *zakah*
2	Amount paid for *zakah*
3	Sources of *zakah*
4	Uses/beneficiaries of *zakah*
5	Balance of *zakah* not distributed–amount
6	Reasons for balance of *zakah*
7	SSB attestation that sources and uses of *zakah* according to *Shari'ah*
8	SSB attestation that *zakah* has been computed according to *Shari'ah*
9	*Zakah* to be paid by individuals-amount
10	Sources of charity *(saddaqa)*
11	Uses of charity *(saddaqa)*
12	Sources of *qard al-hassan*
13	Uses of *qard al-hassan*
14	Policy for providing *qard al-hassan*
15	Policy on non-payment of *qard al-hassan*

Commitment towards Employees	
1	Employees appreciation
2	Number of employees
3	Equal opportunities policy
4	Employees welfare
5	Training: *Shari'ah* awareness
6	Training: other
7	Training: student/recruitment scheme
8	Training: monetary
9	Reward for employees

Commitment towards Debtors	
1	Debt policy
2	Amount of debts written off
3	Type of lending activities-general
4	Type of lending activities-detailed

Commitment towards Community	
1	Women's Branch
2	Creating job opportunities
3	Support for org
4	Participation in government social activates
5	Sponsor community activities
6	Commitment to social role
7	Conferences on Islamic economics

Shari'ah **Supervisory Board (SSB)**	
Theme: Reviews by *Shari'ah* Supervisory Board	
1	Names of members
2	Pictures of members
3	Remuneration of members
4	Report signed by all members
5	Number of meetings held
6	Examination of all business transactions ex ante and ex post
7	Examination of a sample of business transactions ex ante and ex post
8	Report defects in product: specific and detailed
9	Recommendation to rectify defects in product
10	Action taken by management to rectify defects in production
11	Distribution of profits and losses comply to *Shari'ah*

Environment	
1	Introduction of green products
2	Glossary/definition of green product
3	Investment in recycling bin project (recycling for future) and other sustainable development
4	Amount of donation in environmental awareness
5	Financing in any project which may lead to environmental damage
6	Investment in sustainable development projects
7	Initiatives to mitigate environmental impact of product and service and extent of impact mitigation
8	Focus on risk-based corrective actions

Research and Development	
1	Promoting of research and development
2	Capacity building
3	Regular performance and career development report
4	Strategy formulation and decision making support to the top management
5	Standardize training curriculum
6	Market survey and feasibility report
7	Database management

Islamic CG Dimensions	
Corporate Governance	
Mission	
1	The text of the board's written mandate is described
2	The bank has a clear statement of the leadership, purpose, mission and values with reference to corporate governance.
3	The annual statement contains statement addressing corporate governance
4	Reference is made to widely accept corporate governance principles
5	Assessment is made regarding current compliance (where relevant) with the mentioned CG principles
6	Clear statement of the stakeholders' engagement on corporate governance issues and processes is provided.
7	Communication policy for promoting effective communication with shareholders to encourage their participation is disclosed.

Composition of the Board of Directors	
1	A leadership statement on how the board operates is disclosed
2	Identity of the chairman is provided (such as independent or non-executive, etc.)
3	Profile of chairman is disclosed (qualification and experience)
4	Proportions of non-executive members or proportions of independent members are provided
5	The identity of each director whether he/she is independent or non-executive is disclosed
6	Profile of each board member is disclosed (qualification, experience etc.)
7	Statement on whether or not the board and its committees are regularly assessed with respect to their effectiveness and contribution is provided
8	If assessments are regularly conducted, the process used for the assessments is described or if assessments are not regularly conducted, statements on how the board satisfies itself (whether its members and committees are performing effectively) are described
9	Reference to transparent and responsive process for evaluating performance of senior management is provided

Board Leadership	
1	The Board member's formally assigned individual's responsibilities outside the bank are provided.
2	The way the board delineates its role and responsibilities is described
3	How the board facilitates its exercise of independent judgment in carrying out its responsibilities is disclosed

Board Meetings	
1	The number or frequency of the meetings is disclosed
2	Members' attendance at meetings is disclosed

Nomination Committee and/or Compensation Committee	
1	Committee size is disclosed
2	Identity of the chairperson is disclosed whether he is independent or non-executive
3	Profile of the chairperson is disclosed such as qualification, experience etc.
4	Profile of each board member is disclosed
5	Whether or not the board has a compensation committee composed entirely of independent directors is disclosed
6	The proportion of independent members or non-executive members is disclosed
7	The process by which the board identifies new candidates for board nomination is described
8	The process by which the board determines the compensation for the bank's directors and management is described
9	If the board has standing committees other than the audit, compensation & nominating committees, the committees and their functions are disclosed
10	Number of meetings held during the year is disclosed
11	Attendance of each member's committee meetings is disclosed

Shari'ah Governance	
1	Statement on the endorsed conformity of *Shari'ah* compliance is disclosed
2	*Shari'ah* supervisor structure is disclosed
3	The board size is disclosed
4	Identity of the chairman of the *Shari'ah* board is disclosed (experience, qualification etc.)
5	The chairman of the *Shari'ah* board whether he is independent or non-executive chairperson is disclosed
6	Whether other *Shari'ah* supervisory board members are independent or non-executive are disclosed
7	Qualification and relevant experience of all *Shari'ah* board are disclosed
8	Formally assigned individual's responsibilities of the board (outside the bank) are disclosed
9	How the *Shari'ah* board facilitates its exercise of independent judgment in carrying out its responsibilities is disclosed
10	Policies and procedures on appointment and dismissal of members are described
11	Number of meetings during the year is disclosed

	***Shari'ah* Compliance, Supports and Operations**
1	Mechanism on *Shari'ah* compliance monitoring is disclosed
2	Treatment of all earnings realized from sources prohibited by *Shari'ah* is provided
3	Sources and uses of *zakah* and charity funds are disclosed
4	Method of *zakah* calculation is disclosed
5	The contractual rights of investment account holders are disclosed
6	Investment and asset allocation strategies are provided
7	Rights and liabilities of IAH in the event of liquidation are disclosed
8	Statement on the mechanics of smoothing the returns by the bank is provided
9	Notes related to the utilization of profit equalization ratio (PER) is provided
10	Notes related to the utilization of investment risk reserves (IRR) is provided
11	The treatment for the distribution of PER in the event of liquidation is disclosed
12	The profit calculation method and its share of profit earned attributable to IAH are disclosed
13	Changes to policy with regards to profit calculation is provided
14	Changes to policy with regards to investment and asset allocation strategies is provided
15	Change to policy with regards to smoothing of returns
16	Legal right due to unrestricted IAH pertaining comingled funds is disclosed
17	Legal right due to unrestricted IAH pertaining *Mudharib's* failure is disclosed
18	A report on appropriateness of *Shari'ah* basis of allocation of profit between equity holders and IAH is provided

	Ethical Business Conduct and Corporate Responsibility
1	The code of ethics for the directors adopted by the board is disclosed
2	If the board has adopted a written code, how a person or company may obtain a copy of the code is disclosed
3	How the board monitors compliance with its code is disclosed OR if the board does not monitor compliance, how the board satisfies itself regarding compliance with its code is described
4	Any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive management have a material interest are described
5	Any other step the board takes to encourage and promote a culture of ethical business conduct is described
6	Mechanism protecting the rights of shareholders is disclosed
7	Policy and performance in connection with environmental and social responsibility is provided
8	Waivers to the ethics code are disclosed
9	Code of ethics for all employees is provided
10	Role of employees in corporate governance is provided
11	Performance evaluation process is disclosed
12	Impact of environmental and social responsibility policies on bank's sustainability is disclosed
13	Policy on whistle blower protection for all employees is provided

	Audit Committee
1	Committee size is disclosed
2	Identity of the chairperson is disclosed
3	Whether the chairperson is independent or non-executive is disclosed
4	Whether or not the board composed entirely of independent directors is disclosed
5	Proportion of independent members is disclosed
6	Whether committee members include non–executive director is disclosed
7	The process by which the board identifies new candidates for board nomination is described
8	The terms of reference of the committee is formed and approved by the board
9	Scope of work and responsibilities is disclosed
10	Term of reference of internal audit is disclosed
11	Board's confidence in independence and integrity of external auditors is provided
12	Process of appointment of external auditor is disclosed
13	Process for interaction with external auditor is disclosed
14	Duration of current external auditors is disclosed
15	Rotation of audit partners is disclosed
16	Proportion of audit/other fees is disclosed
17	Number of meetings held during the year is disclosed
18	Attendance of each member's committee meetings is disclosed
19	The suitability of internal audit is provided (based on experience and qualification
20	The internal audit is said to be conversant with policies and procedures of the bank
21	The effectiveness of internal audit is stated
22	Related party transactions are placed before audit committee and approved by the board.

3.5.2.1 Defining the Construct of CSR and CG Index

This section presents the construction of the CSR Index and the CG Index. Thus, in this section, all the dimensions listed in Table 3.2 are discussed.

CSR Dimensions

(i) Mission and Vision Statement

The main objective of the mission and vision statement is to provide financial services in accordance with the *Shari'ah* laws and be able to put the Islamic principles into practice. According to Haniffa and Hudaib mission and vision statements in the annual reports are regarded as "the long and short-term commitments of business entity" (2004: 10). Ideally, most Islamic Banks analysed in this research provide social responsibility to develop the community and help customers and shareholders to understand their economic objectives.

(ii) BOD and Top Management

The main objective of the BOD is to provide and build a trusting relationship between the agents (the managers) and the principals (the owners of the resources). According to Haniffa and Hudaib (2004: 106) Islamic banks ought to include more information and credentials about their BOD and top management in their annual reports in order for researchers, readers and users to be able to communicate and make their judgments accordingly. Hence, personal information such as their names, positions, pictures, shareholdings of members, academic qualifications, and meetings attended should be disclosed in the annual reports. This helps understand the profile of the BOD and top management of a business.

(iii) Products and Services

Haniffa and Hudaib (2004: 106) state that what differentiates Islamic banks from conventional ones are the type of services and products they offer. It is obligatory for Islamic banks to comply with *Shari'ah* laws and rules in all of their products and services. Hence, Islamic banks ought to deal in transparent manner to ensure that is it delivering accurate information regarding their products and services through their annual reports and, thus, users of the annual reports can judge the Islamic banks justly.

Moreover, the BSM annual report states that: "All product features of funding, financing and operational services have won approval from SSB to assure of product compliance with the *shari'ah* principles" (2010: 14). Therefore, IFIs and Islamic banks when launching new products and services disclose that they seek SSB approval. Nevertheless, most Islamic banks do not provide information about their involvement in non-permissible activities but concentrate on their products and services, which are *Shari'ah* compliance and have been approved by the SBB.

(iv) *Zakah*, Charity, Benevolent Loans

Zakah, charity and benevolent loans are seen as part of the social welfare and development of Islamic banks and are obligatory under Islamic law and not just as an act of worshipping (Haniffa and Hudaib, 2004: 108). The act of *zakah* is seen as a part of the Islamic banks' operations, hence, having a responsibility towards their shareholder and depositor this should be the banks main responsibility and not to be concerned with other social responsibility within the environment (Dusuki, 2007). Thus, the ADIB Annual Report states, “the management of the Bank is not authorized to pay *Zakat* directly, the responsibility of paying *Zakat* is that of the shareholders” (2002: 10). Other forms of strategic social development such as benevolent fund, charity, *Zakah* and other form of social development and life improvement of the less fortunate in society most importantly, the act of *zakah* charity as Asutay (2012: 93) states, “funds should be created with the objective of serving the social and developmental needs of Muslim societies”.

Although, most Islamic banks disclosed in their annual reports the amount of *zakah* paid, none stated how the *zakah* was used. In addition, although payment of *zakah* is seen as a religious obligation, according to the ARB it can be seen as a tax burden:

> The Department of *Zakat* and Income (DZIT) *zakat* is calculated based on the *zakat* rules and regulations while any differences between the Bank’s calculation and the Department of *zakat* and Income Tax’s (DZIT) assessment, such differences will be charged to the general reserve (ARB, Annual Report, 2008: 37).

It should be noted that other acts of contributing to the welfare of society and the improvement of the poor is under the dimension of *qard-hasan,* which further distinguishes Islamic banks from conventional banks. *Qard-hasan* are loans in which only the principle is repaid and is seen one of the most fundamental institutions though which Islamic society is provided with schools, hospitals, mosques and shelters (Abbasi, 2012: 122). Nonetheless, it has been argued that the information disclosed in the annual reports related to how and towards what these loans are issued is limited. Furthermore, IFIs and Islamic banks ought to have a “clear policy regarding non-repayment of such funds” (Haniffa and Hudaib, 2004: 108).

(v) Commitment towards Employees

This dimension indicates the importance of human capital from the social responsibility perspective. However, the information disclosed in the annual reports is not as efficient as it should be. Haniffa and Hudaib (2004: 108) state that not many Islamic banks disclose information on employee’s welfare, benefits, health insurance, training courses, *etc*. Specifically, training courses related to the *Shari’ah* banking practices to enhance employee awareness in relation to newly launched products and services should be held and reported. Thus, employees should be able to convey an accurate message of the products and services to their customers and shareholders. Therefore, more information is expected to be disclosed in the annual reports regarding this particular dimension.

(vi) Commitment towards debtors

In this dimension, Islamic banks aim to discover if debtors are well informed in the annual reports. However, little information is provided in this dimension in terms of the banks' debt policies. Thus, IFIs and Islamic banks ought to disclose more information on this dimension (Haniffa and Hudaib: 2007: 108-109).

(vii) Commitment towards Community and Society

This dimension seeks to measure the contribution towards the development of society and its people through the involvement of Islamic banks and IFIs in social activities. Information needs to be disclosed in the Islamic banks' annual reports to fulfil their ethicality criteria. One bank, Masraf AlRayan of Qatar mentions its role within society as being:

> keen on participation in community development through supporting individuals and groups to carry out their role in building a better society. The Bank is also keen on taking part in public causes that concern the society, protect the environment, and encourage protection of natural resources, healthy practices, supports sports, and charitable endeavors (Masraf Al Rayan, Annual Report, 2011: 31).

However, it has argued by Haniffa and Hudaib (2007: 109) that although Islamic banks view CSR as a vital part of its business, there is limited information disclosed in their annual reports. This is because Islamic banks aim not only to maximize their profits and adopt CSR in accordance with *Shari'ah* compliance but also as the ADIB Annual Report states "its participation in various community development programs makes a sincere effort at making the society a better place to live in" (2003: 18).

(viii) *Shari'ah* Supervisory Board (SSB)

Under this dimension, Islamic banks are required to communicate information about their SSB. Haniffa and Hudaib (2007: 109) state that Islamic banks ought to include names, pictures, remuneration and reports signed by the SSB. The SBBs are supposed to ensure that the management is conducting the business in accordance with *Shari'ah* compliance. Checking documents and procedures to ensure compliance with *Shari'ah* is a vital part of the functions of SSB. However, the authority of the SSBs is limited in some Islamic banks, as the International Islamic annual report confirms:

> The Committee confirms that the responsibility of applying the *Shari'ah* terms and conditions lies on the Bank's management, whereas, our responsibility is limited to expressing our opinion and monitoring the transactions submitted within its guidelines (2009: 23).

(ix) Environment

This dimension examines if Islamic banks and IFIs communicate the expected information about their contribution towards environmental issues. In recent years, concerns about the environment have led to an increased awareness of the corporate environmental responsibility, and protecting the environment is now a vital part of CSR. Therefore, Islamic banks need to communicate information related to this dimension of their activities. Adams (2002) states that corporate environmental disclosure has led companies, banks and other financial institutions to expand their role in providing financial disclosure and environmental disclosure. In this context, the HLIB annual report states that: "Environmental management programs such as recycling campaigns, air pollution controls and waste management programs are continuously deployed" (2012:17). However, Islamic banks must include detailed information, such the size and scope of environmental activities, since, Islamic moral economy encourages and insist on being social responsible towards the environment.

(x) Research and Development

This dimension seeks to examine Islamic banks and IFIs communicate the expected information about their contribution towards research and development projects. However, Islamic banks do not provide much information in the area of research and development.

CG Dimensions

The following is a description of each of the dimensions and the contents of the GC dimensions.

(i) Mission

The main objective of CG related to the mission statement of Islamic banks is to operate in accordance with the *Shari'ah* laws and principles in order to meet international ethics and morals. In this context, the QIB annual report states that the main aim is to be "a leading, innovative and global Islamic bank adhering to the highest *Shari'ah* and ethical principles; meeting international banking standards; partnering with the development of the global economy and participating in the advancement of the society" (2008: 5). Therefore, more information ought to be disclosed in Islamic banks' annual reports. Information such as statements addressing CG, making a clear statement on the leadership, purpose, mission and values with reference to CG, making a clear statement of the stakeholders engagement on CG issues and the processes used.

(ii) Composition of the Board of Directors (BOD)

Under this dimension Islamic banks are required to communicate information about the BODs, including how the board operates and the proportion of non-executive members or independent members. According to Ariff and Iqbal (2011:117), board committees established by the BOD are a part of CG. These committees, which support rather than replace the BOD, are responsible for examining various aspects of the operations of Islamic banks.

(iii) Board Leadership

This dimension seeks the level of disclosed information about the board members, how their roles and responsibilities are defined and how they facilitate the exercise of independent judgment in carrying out their responsibilities. Therefore, Islamic banks should disclose detailed information on the board leadership and their functions in their annual reports.

(iv) Board Meetings

Under this dimension, the number of meetings held by the BOD and management and members' attendance at the meetings should be disclosed.

(v) Nomination Committee and/or Compensation Committee

The main objective of reporting in the annual reports on the nomination committee and/or the compensation committee is to disclose information such as the committee size, the profile and educational qualification of the chairperson as well as his/her experience and other sub-dimensions. Ariff and Iqbal argue that the "nomination committee is seen as the most vital in its responsibilities for the board communications in terms of reviewing the board's performance" (2011:117).

(vi) *Shari'ah* Governance

The *Shari'ah* governance dimension aims to ensure that all internal and external practices and operations meet the conditions of *Shari'ah* compliance. The SSB aims to ensure control and justice in financial transactions in order to increase people's confidence in the IFIs with respect to compliance with *Shari'ah* principles.

(vii) *Shari'ah* Compliance, Supports and Operations

The main framework of CG in Islam is articulated in the ethical and moral concept of *Shari'ah, shura* and *tawhid* these concepts are seen as the bases of CG in Islam (Lewis, 2005: 19). Since CG model in Islam is mainly concerned about the equal protection of the stakeholder's rights regardless if whether they own or hold shares or not rather than just protecting the interest of the shareholders. It is vital to further discusses the CG models from an Islamic perspective and observe how IFIs adopts these models in their operations. Thus, the Islamic banks should disclose the following information in their annual reports: the nature of the mechanism for dealing with *Shari'ah,* dealing with all earnings realized from sources prohibited by *Shari'ah*, and information related to the use of *zakah* and charity funds, what is their main source and how they are distributed.

(viii) Ethical Business Conduct and Corporate Responsibility

Under this dimension, the Islamic banks and IFIs are expected to disclose information in their annual reports such as the code of ethics for the directors, how the board monitors compliance with its code, if the board does not monitor compliance and details of the protection of the shareholders, the performance in connection with environmental and CSR.

(ix) Audit Committee

The main dimension of the Audit Committee in CG in Islam is that certain information about the audit committee such as its size, the identity of the chairperson, the scope of work and responsibilities should be disclosed.

3.5.3. Data Analysis Method and Process

The data collected from the annual reports through content analysis were codified into quantitative data and subjected to descriptive data analysis in the form of mean analysis in order to identify the central position in terms of trends in the data for each dimension. The model adopted for this study is based that developed by Haniffa and Hudiab (2007).

The coding score of each item is established through the content analysis; in the case of having been disclosed a score of 1 was given, if it is not disclosed then a score of 0 is given. The overall dimensions are scored in an additive manner; Haniffa and Hudiab (2007: 103) demonstrate that the scoring of the index is additive, which means that it is based on equally weighted average. This helps to establish the scores for eight dimensions for CSR and nine dimensions for CG. The indices for both measures are constructed according to the following formula:

$$EII_J = \frac{\sum_{t=1}^{nj} xij}{nj}$$

Where EIIj = ethical identity index for dimension j and period t;

$X_{ij=}$ variable X from 1 up to n for dimension j and period t;

N= number of statements for dimension j.

In presenting the analysis of the results, each dimension in each index is calculated and presented at both the bank and country level. The results are presented in tables which display the individual scores in each year and the total score for the five years. Thus, the tables present the level of the CSR and CG performance of the 75 sampled Islamic banks from the five GCC countries. Thus, the tables display the result of each bank and country in order to identify the overall score for both CSR and CG.

As for the interpretation of the results, as suggested by Haniffa and Hudiab, a high score for a dimension

> suggests that the corporation has adopted a communication strategy that fits its religious ethical identity [or the dimensions measured], while a low EII suggests the need to improve its communication strategy to enhance its ethical image and reputation and to gain competitive advantage [in the particular identified area] (2007: 104).

However, it is important to emphasise the difficulties and limitations of precisely collecting information from annual reports from some of the newly established Islamic banks in the GCC countries. One of the difficulties is related to the lack of data for one of the GCC banks. In addition, the 2008 annual reports from two of the banks from Qatar, the International Islamic Bank and the Masraf Al-Rayan Bank and one bank from Saudi Arabia Alinma bank were missing. Hence, the coding in these cases was scored as ‘n/a’.

The calculation method through the identified formula is applied to each individual bank and country, since the index of CSR and CG is constructed by adding up the scored located for each item under each dimension. The mean value provides the resultant score for each dimension of each bank in each year. The mean bank scores of a particular country provide the result for that particular country. In other words, on the country level, the CSR and CG index on the country level is derived by the total scores for each individual bank.

3.6. CONCLUSION

After defining, identifying and detailing the research methodology and procedure as well as the content of the index for CSR and CG dimensions, the next chapter, being the empirical chapter, details findings of the study.

CHAPTER 4

EVALUATING THE CSR AND CG DISCLOSURE PERFORMANCE OF THE GCC ISLAMIC BANKS: EMPIRICAL FINDINGS

4.1. INTRODUCTION

The previous chapter discusses the research methodology used to measure the CSR and CG disclosure performance in terms of the communicated information of the major 15 Islamic banks in the Gulf region through an examination of the 'Ethicality Index for CSR' and the 'CG Disclosure Index' in their annual reports. This chapter presents the analysis investigating the relationship between CG and CSR. In other words, the indices developed for the disclosure performance are used also to explain the correlation between CSR and CG and to explain how close the practices of the sampled Islamic banks are in terms of CSR and CG disclosure to best practices.

The following sections first provide the CSR disclosure performance at bank and country level; and then the same is repeated for the CG disclosure performance. The results are also presented in terms of dimension scores. Finally, correlation results are presented with the objective of testing the hypothesis that CG leads the CSR.

4.2. MEASURING THE CSR DISCLOSURE PERFORMANCE OF ISLAMIC BANKS IN THE GCC REGION: BANK AND COUNTRY LEVEL

This section provides the analysis and results for the CSR Index dimensions at bank and country level over the period in question.

4.2.1. Disclosure on 'Mission and Vision Statement' Dimension

The main objective of the mission and vision statement dimension as part of the CSR Ethical Identity Index is for the Islamic banks to be able to provide financial services in accordance with the *Shari'ah* laws and be able to put the Islamic principles into practice. According to Haniffa and Hudaib (2004:10) 'mission and vision' in the annual reports are regarded as "the long and short-term commitments of business entity".

The results of the content analysis of mission and vision dimension as the mean value of 'sub-dimensions' under this dimension is depicted in Table 4.1 at the bank level.

The EIB of UAE scored the highest with full disclosure of 1.00, followed by ADI of UAE with the score of 0.87, then the Al Baraka Bank of Bahrain 0.80, QIB of Qatar 0.74 and KFH of Kuwait 0.62. The lowest scores in communicating information in their annual reports related to mission and vision were attributed to DIB of UAE with 0.13, ABC of Bahrain with 0.11 and KIB of Kuwait with 0.0. In addition, the results for the mission and vision dimension illustrated in the table 4.1 show that the overall mean is 0.47, which fell short of the best practice (best practice being 1).

Table 4.1: Results of 'Mission and Vision' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.57	KFH	0.62	QIB	0.74	AlRajhi	0.28	DIB	0.13
Al Baraka	0.80	KIB	0.02	IIB	0.57	AlJazira	0.25	ADI	0.87
ABC	0.11	Boubyan	0.14	MR	0.57	Alinma	0.45	EIB	1.00

Mean = 0.47

As presented in table 4.1, ABC of Bahrain and KIB of Kuwait of scored the lowest in communicating information in their annual reports under the vision and mission dimension. Nevertheless, various banks such as ADI bank made general statements under their mission and vision dimension that the mission of ADI bank is "to provide Islamic financial solutions for the global community" (Annual Report, 2009: 4), instead of stating clearly their compliance with *Shari'ah* principles in detail.

Table 4.2: Results of 'Mission and Vision' Dimension at the Country Level

Country	Mission and Vision
Bahrain	0.495
Kuwait	0.266
Qatar	0.628
Saudi Arabia	0.333
UAE	0.802

Mean= 0.47

The results at the country level for 'mission and vision' dimension are presented in table 4.2. As can be seen, the UAE Islamic banking industry scored the highest mean disclosure index with 0.802; this is followed by Qatar with 0.628, Bahrain with 0.495, Saudi Arabia with 0.333 and finally Kuwait with 0.266. Thus, overall, the country level mean is 0.47 for 'mission and vision' dimension, which is still fall short of the best practice level.

4.3.2. CSR Disclosure on 'BOD' Dimension

The next dimension covered is 'board of directors', which primarily focuses on information disclosure about the BOD in building a trustworthy relationship between the management and their shareholders. Such communicated information includes personal information such as their names, positions, pictures, shareholdings of members and academic qualifications. The results are reported in Table 4.3.

Table 4.3: Results of 'Board of Directors' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.64	KFH	0.50	QIB	0.55	AlRajhi	0.26	DIB	0.13
Al Baraka	0.79	KIB	0.20	IIB	0.18	AlJazira	0.43	ADI	0.44
ABC	0.70	Boubyan	0.40	MR	0.29	Alinma	0.21	EIB	0.35

Mean = 0.40

The analysis show that the majority of the sampled Islamic banks show the pictures of their BOD members, their names and positions but only three presented their academic qualifications and the number of the meeting held. However, none gave the shareholdings of board members, the multiple-directorships held by board members and the dual role of CEO and Chairman of Board.

As it can be seen in table 4.3, Al-Baraka Bank of Bahrain scored the highest disclosure with 0.79, followed by ABC of Bahrain with 0.70, and Ithmar Bank of Bahrain 0.64. QIB of Qatar with 0.55 followed by KFH of Kuwait with 0.50, ADI bank of UAE with 0.44, AlJazita bank of Saudi Arabia with 0.43, EIB of UAE with 0.35, followed by MR of Qatar with 0.29. The lowest scores in communicating information in their annual reports related to the BOD are attributed to AlRajhi bank of Saudi Arabia with 0.26, followed by KIB of Kuwait with 0.20, IIB of Qatar at 0.18, and DIB of UAE with 0.13. Moreover, the results for the bank level disclosure for the

BOD dimension show an overall mean of 0.40.

Table 4.4: Results of 'BOD' Dimension at the Country Level

Country	BOD
Bahrain	0.707
Kuwait	0.369
Qatar	0.343
Saudi Arabia	0.302
UAE	0.312

Mean = 0.40

As presented in table 4.4, the Bahraini Islamic banking industry scored the highest mean disclosure index with 0.707; this is followed by Kuwait with 0.369, Qatar with 0.343, Saudi Arabia with 0.302 and UAE 0.312. The country level mean is 0.40 for 'BOD' dimension in the case of sampled banks.

The results imply that the limited information is disclosed in the annual reports about the BOD, which undermines the ability of customers and shareholders to judge and trust those who are operating the businesses on their behalf (Haniffa and Hudaib, 2004: 11). If basic information such as the BOD academic qualifications and profile is not disclosed, it raises the question as to how shareholders and customers can know if the business is operating according to *Shari'ah* principles.

4.3.3. Disclosure on 'Products and Services' Dimension

The results in relation to 'Products and Services' for the CSR Index focuses on what differentiate Islamic banks from conventional ones, the type of services and products offered. Since it is obligatory for Islamic banks to comply with *Shari'ah* laws and rules in all of their products and services, Islamic banks should observe a certain level of distinction.

Table 4.5: Results of 'Products and Services' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.44	KFH	0.48	QIB	0.46	AlRajhi	0.50	DIB	0.14
Al Baraka	0.56	KIB	0.14	IIB	0.26	AlJazira	0.36	ADI	0.46
ABC	0.32	Boubyan	0.28	MR	0.48	Alinma	0.30	EIB	0.58

Mean = 0.38

The results as presented in table 4.5 show that the EIB of UAE scored the highest disclosure with 0.58, followed by Al-Baraka Bank of Bahrain 0.56, followed by AlRajhi bank of Saudi Arabia with 0.50, and KFH of Kuwait and MR of Qatar with 0.48 each, followed by QIB of Qatar with 0.46. The lowest scores in this dimension are attributed to Boubyan Bank of Kuwait, which scored 0.28, followed by IIB of Qatar with 0.26 and DIB of UAE and KIB of Kuwait with 0.14 each. The overall bank level mean is 0.38 for the 'products and services dimension' for the sampled banks.

Table 4.6: Results of 'Products and Services' Dimension at the Country Level

Country	Products and Services
Bahrain	0.440
Kuwait	0.300
Qatar	0.400
Saudi Arabia	0.386
UAE	0.393

Mean = 0.38

The country level results for this dimension are presented in table 4.6. The results highlight that Bahraini banks at 0.440 achieved the best score. This is followed by Qatar at 0.400, the UAE 0.393, Saudi Arabia 0.386 and finally Kuwait with the lowest score of 0.300. The country level mean is 0.38 for 'products and services' dimension indicating a weak score of disclosure performance.

4.3.4. Disclosure on '*Zakah*, Charity, Benevolent Funds and Other Strategic Social Development' Dimension

The main objective of the *zakah*, charity and benevolent loans by Islamic banks is to improve social welfare and development. These are obligatory under Islamic law since the act of *zakah* is considered to part of the act of worshipping (Haniffa and Hudaib, 2004: 108) as enunciated by the Islamic moral economy.

Table 4.7: Results of '*Zakah*, Charity, Benevolent Funds and Other Strategic Social Development' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.16	KFH	0.06	QIB	0.29	AlRajhi	0.21	DIB	0.14
Al Baraka	0.29	KIB	0.02	IIB	0.00	AlJazira	0.14	ADI	0.44
ABC	0.00	Boubyan	0.01	MR	0.12	Alinma	0.08	EIB	0.41

Mean = 0.15

The results for this dimension on the bank level, as presented in table 4.7, show that ADI bank of UAE scored the highest score with 0.44, followed by EIB bank of UAE 0.41, and Al Baraka bank of Bahrain and QIB of Qatar with 0.29 each, Al Rajhi Bank of Saudi Arabia 0.21, Ithmar Bank of Bahrain 0.16, and AlJazira of Saudi Arabia and DIB of UAE with 0.14 each. Extremely low scores are attributed to KIB of Kuwait with 0.02, followed by the Boubyan Bank of Kuwait with score of 0.01, ABC Bank of Bahrain and IIB of Qatar both scored zero. The overall mean is only 0.15, which is far below the acceptable level.

Table 4.8: Results of '*Zakah*, Charity, Benevolent Funds and Other Strategic Social Development' Dimension at the Country Level

Country	***Zakah*, Charity**
Bahrain	0.151
Kuwait	0.035
Qatar	0.137
Saudi Arabia	0.146
UAE	0.333

Mean = 0.15

The results at the country level for the '*zakah*, charity and benevolent loans' displayed in table 4.8 show that UAE Islamic banks industry scored the highest mean disclosure index with 0.333; this is followed by Bahrain with 0.151, Saudi Arabia with 0.146, Qatar with 0.137 and Kuwait with the lowest at 0.035. The country level mean is 0.15 for the '*zakah*, charity and benevolent loans' dimension indicating a very low disclosure in this dimension.

4.3.5. Disclosure Results on 'Commitment towards Employees' Dimension

Table 4.9: Results of 'Commitment towards Employees' Dimension at the Bank Level

Bahrain		**Kuwait**		**Qatar**		**Saudi Arabia**		**UAE**	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.71	KFH	0.11	QIB	0.42	AlRajhi	0.00	DIB	0.17
Al Baraka	0.48	KIB	0.04	IIB	0.11	AlJazira	0.20	ADI	0.46
ABC	0.17	Boubyan	0.15	MR	0.40	Alinma	0.24	EIB	0.26

Mean = 0.26

This dimension indicates the necessity of human capital, as it is a vital part for the robust development and social responsibility of Islamic banks. In their attempt to measure this dimension, Haniffa and Hudaib (2004: 108) found that not many Islamic banks disclosed information on employees' welfare, their benefits, health insurance, training courses for their development, *etc*. In line with this, the results of this research also indicate that not most Islamic banks fail to communicate sufficient information about their employees.

As is illustrated from the ethical identity index in table 4.9, Ithmar Bank of Bahrain scored the highest 0.71, which is followed by Al Baraka Bank of Bahrain 0.48, ADI Bank of UAE 0.46, QIB of Qatar 0.42 and MR bank of Qatar with 0.40. At the opposite end of disclosure are ABC Bank of Bahrain and DIB of UAE both scoring 0.17, Boubyan Bank of Bahrain with 0.15, KFH of Kuwait and IIB of Qatar with 0.11 each followed by KIB of Kuwait with 0.04. The lowest score is scored by AlRajhi

Bank of Saudi Arabia, which scored zero. The overall mean at the bank level is 0.26 for the 'commitments towards employees' dimension.

Table 4.10: Results of 'Commitment towards Employees' Dimension at the Country Level

Country	Commitment towards Employees
Bahrain	0.459
Qatar	0.311
UAE	0.303
Saudi Arabia	0.148
Kuwait	0.103

Mean=0.26

The results in country level for the 'commitment towards employees' dimension are presented in table 4.10. As can be seen, Bahrain Islamic banking industry scored the highest mean disclosure index with 0.459; this is followed by Qatar with 0.311, UAE with 0.303, Saudi Arabia with 0.148 and Kuwait with 0.103. The overall country level mean for the 'commitment towards employees' dimension is 0.26.

4.3.6. Disclosure Results on 'Commitment towards Employees' Dimension

This dimension aims to discover if commitment to debtors is well communicated in the annual reports. The results, which are depicted in table 4.11, highlight the ABC Bank of Bahrain scored the highest with 0.75, followed by Ithmar Bank of Bahrain with 0.58, AlJazira Bank of Saudi Arabia with 0.55, EIB Bank of UAE 0.5, AlRajhi Bank of Saudi Arabia 0.45, and Alinma Bank of Saudi Arabia 0.4. Those banks, which scored poorly, were Al Baraka Bank of Bahrain and ADI Bank of UAE both with 0.35, MR Bank of Qatar 0.25, and DIB Bank of UAE 0.1. However, the three main Islamic banks of Kuwait, KFH, KIB and Boubyan all scored zero, as did the IIB of Qatar. The overall bank level mean score is 0.29. Thus, IFIs and IBs ought to disclose more information on this dimension (Haniffa and Hudaib: 2007: 108-109).

Table 4.11: Results of 'Commitment towards Debtors' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.58	KFH	0.00	QIB	0.10	AlRajhi	0.45	DIB	0.10
Al Baraka	0.35	KIB	0.00	IIB	0.00	AlJazira	0.55	ADI	0.35
ABC	0.75	Boubyan	0.00	MR	0.25	Alinma	0.40	EIB	0.50

Mean = 0.29

Table 4.12: Results on 'Commitment towards Debtors' Dimension at the Country Level

Country	Commitment towards Debtors
Bahrain	0.650
Kuwait	0.000
Qatar	0.116
Saudi Arabia	0.466
UAE	0.316

Mean = 0.29

The results at the country level for the 'Commitments towards Debtors' dimension, are displayed in Table 4.12. The Bahrain Islamic banking sector scored the highest mean discourse index with 0.650, followed by Saudi Arabia with 0.466, wand then UAE 0.316 and Qatar 0.116. However, Kuwait recorded a zero score. The country level mean is 0.30 for the 'commitments towards debtors' index implying that for this dimension also the performance is far from best practice.

4.3.7. Disclosure Results on 'Commitment towards Community' Dimension

The dimension of 'commitment towards community' aims to measure as to how much the sampled banks are contributing towards the development of society and people within the larger social environment in which they operate. The involvement of Islamic banks in social activities is deemed a necessity to maintain their corporate ethical identity.

Table 4.13: Results of 'Commitment towards Community' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.60	KFH	0.57	QIB	0.50	AlRajhi	0.70	DIB	0.34
Al Baraka	0.71	KIB	0.14	IIB	0.25	AlJazira	0.45	ADI	0.77
ABC	0.26	Boubyan	0.57	MR	0.40	Alinma	0.00	EIB	0.31

Mean = 0.43

As can be seen from Table 4.13, ADI Bank of UAE recorded the highest score with 0.77, followed by Al Baraka Bank of Bahrain with 0.71, AlRajihi Bank of Saudi Arabia with 0.70, Ithmar Bank of Bahrain with 0.60, and KFH and Boubyan Bank of Kuwait both with scores of 0.57 and QIB of Qatar with score of 0.50. The lowest scoring banks were DIB of UAE with 0.34 followed by EIB of UAE with 0.31, ABC bank of Bahrain with 0.26, IIB of Qatar with 0.25, KIB of Kuwait with 0.14, and the lowest score was attributed to Alinma Bank of Saudi Arabia with zero. The overall mean of the 'Commitment towards Community' dimension at the bank level is only 0.43 indicating that even the half of the information expected to be communicated is not disclosed by the sampled Islamic banks.

Table 4.14: Results of 'Commitment towards Community' Dimension at the Country Level

Country	Commitment towards Community
Bahrain	0.447
Kuwait	0.428
Qatar	0.358
Saudi Arabia	0.385
UAE	0.476

Mean = 0.43

The results at the country level for the 'Commitments towards Community' dimension can be seen in Table 4.14. The UAE Islamic banks industry scored the highest mean discourse index with 0.476, followed by Bahrain with 0.447, Kuwait with 0.428, Saudi Arabia with 0.385, and finally Qatar with a score of 0.358. Overall, the country level mean was 0.43 implying that less than half of the information needed for full disclosure is disclosed.

4.3.8. Disclosure Results on '*Shari'ah* Supervisory Board' Dimension

Under this dimension Islamic banks are required to communicate information about their SSB. Haniffa and Hudaib (2007: 109) argue this information should include the names, pictures and remuneration of members plus the reports signed by the SSB.

Table 4.15: Results of '*Shari'ah* Supervisory Board (SSB)' Dimension at the Bank Level

Bahrain		**Kuwait**		**Qatar**		**Saudi Arabia**		**UAE**	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.23	KFH	0.25	QIB	0.27	AlRajhi	0.18	DIB	0.10
Al Baraka	0.30	KIB	0.19	IIB	0.21	AlJazira	0.25	ADI	0.41
ABC	0.00	Boubyan	0.23	MR	0.29	Alinma	0.18	EIB	0.27

Mean = 0.22

The results of the '*Shari'ah* Supervisory Board' dimension, which are depicted in Table 4.15, show that the ADI Bank of UAE scored the highest score with 0.41, followed by Al Baraka Bank of Bahrain with 0.30, MR of Qatar with 0.29, and then by QIB of Qatar and EIB of UAE which both scored 0.27, followed by IIB of Qatar with 0.21. The lowest ranking banks were KIB of Kuwait with 0.19, Alinma and AlRajhi Bank of Saudi Arabia both with 0.18, DIB of the UAE with 0.10 and ABC Bank of Bahrain with zero. The overall mean of the SSB index is 0.22, which indicates a very low disclosure.

Table 4.16: Results of '*Shari'ah* Supervisory Board (SSB)' Dimension at the Country Level

Country	**SSB**
Bahrain	0.181
Kuwait	0.200
Qatar	0.260
Saudi Arabia	0.206
UAE	0.266

Mean = 0.22

The country level results for the '*Shari'ah* Supervisory Board' dimension presented in table 4.16 show that the UAE Islamic banking sector scored the highest mean disclosure index with 0.266, followed by Qatar with 0.260, Saudi Arabia with 0.206, Kuwait with 0.200 and Bahrain with 0.181. The country level mean is 0.22 for the SSB score, indicating a very low level of disclosure.

4.3.9. Disclosure Results on 'Environment' Dimension

The results of the content analysis according to the CSR Index's 'Environment' dimension at the bank level are presented in table 4.17.

Table 4.17: Results of 'Environment' Dimension at the Bank Level

Bahrain		**Kuwait**		**Qatar**		**Saudi Arabia**		**UAE**	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.25	KFH	0.07	QIB	0.02	AlRajhi	0.00	DIB	0.07
Al Baraka	0.05	KIB	0.00	IIB	0.00	AlJazira	0.00	ADI	0.07
ABC	0.00	Boubyan	0.00	MR	0.02	Alinma	0.00	EIB	0.00

Mean = 0.03

According to the results in Table 4.17, Ithmar bank of Bahrain scored the highest with score of only 0.25, followed by ADI and DIB of UAE and KFH of Kuwait, all with a score of 0.07 and Al Baraka Bank of Bahrain with 0.05. Eight banks failed to disclose any information and therefore were scores at zero; these are ABC of Bahrain, KIB and Boubyan bank of Kuwait, IIB of Qatar, EIB of UAE and the three Saudi banks, AlRajhi, AlJazira and Alinma. The bank level mean is 0.03 for the Environment score, indicating a very low level of disclosure.

Table 4.18: Results of 'Environment' Dimension at the Country Level

Country	**Environment**
Bahrain	0.091
Kuwait	0.025
Qatar	0.016
Saudi Arabia	0.000
UAE	0.050

Mean = 0.03

The country level results for the ‘Environment’ dimension are depicted in Table 4.18. These show that Bahraini Islamic banking sector scored the highest mean score with only 0.091, followed by UAE with 0.050, Kuwait with 0.025, Qatar with 0.016, and at the bottom Saudi Arabia with zero. The overall the country level mean score is 0.03 indicating that the GCC Islamic banks disclose very little about environmental issues, despite the environment being considered as *amanah* (in trust from God).

4.3.10 Disclosure Results on ‘Research and Development’ Dimension

The results of the content analysis according to the CSR Index’s ‘Research and Development’ dimension at the bank level are presented in table 4.19.

Table 4.19: Results of ‘Research and Development’ Dimension at the Bank Level

Bahrain		**Kuwait**		**Qatar**		**Saudi Arabia**		**UAE**	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.05	KFH	0.02	QIB	0.03	AlRajhi	0.02	DIB	0.00
Al Baraka	0.02	KIB	0.00	IIB	0.10	AlJazira	0.00	ADI	0.11
ABC	0.00	Boubyan	0.05	MR	0.03	Alinma	0.00	EIB	0.00

Mean = 0.03

The results for the ‘research and development’ dimension at the bank level are presented in table 4.19. The ADI Bank of UAE scored the highest with a score of only 0.11, followed by IIB of Qatar with 0.10, and Ithmar of Bahrain with 0.05. Six banks failed to disclose any information and therefore scored zero. These banks were ABC of Bahrain, KIB of Kuwait, AlJazira Bank and Alinma Bank of Saudi Arabia and DIB and EIB of UAE.

Given the very low disclosure of the sampled banks for this dimension, the overall mean is only 0.03, indicating that virtually no information is provided by the GCC Islamic banks for this dimension.

Table 4.20: Results of 'Research and Development' Dimension at the Country Level

Country	Research and Development
Bahrain	0.028
Kuwait	0.028
Qatar	0.055
Saudi Arabia	0.009
UAE	0.038

Mean = 0.03

The country level results for the 'research and development' dimension can be seen in Table 4.20. The Qatari Islamic banking industry scored the highest mean disclosure index with 0.055, followed by UAE with 0.038, Kuwait and Bahrain with 0.028 and Saudi Arabia (0.009). The country level mean is a very weak 0.03 for the CSR index for the 'research and development' dimension.

4.3.11 Overall Results for 'CSR Disclosure Performance' Dimension

The previous sections present the results at the bank and country level for each dimension of the CSR index. This section discusses the overall results for the CSR disclosure of the main Islamic banks in the GCC region. The overall results are calculated as the average of the mean values scored by each of the dimensions. The ranked results from highest to lowest are presented in Table 4.21.

Table 4.21: Overall CSR Disclosure Results at the Bank Level

Ranking	Name of Bank	Country of Origin	Overall Score for CSR Disclosure
1	ADI	UAE	0.438
2	AlBaraka	Bahrain	0.435
3	Ithmar	Bahrain	0.420
4	EIB	UAE	0.368
5	QIB	Qatar	0.338
6	MR	Qatar	0.285
7	KFH	Kuwait	0.268
8	AlJazira	Saudi Arabia	0.263
9	AlRajhi	Saudi Arabia	0.260
10	ABC	Bahrain	0.207
11	Alinma	Saudi Arabia	0.186
12	Boubyan	Kuwait	0.183
13	IIB	Qatar	0.168
14	DIB	UAE	0.132
15	KIB	Kuwait	0.075

Table 4.21 shows that the bank with the highest score was ADI bank of UAE with a score of 0.438. The lowest performance of CSR disclosure and practices was KIB of Kuwait, which scored an overall score of 0.075.

Table 4.22: Country Level CSR Disclosure Index for all the Dimensions

Country	CSR Disclosure
Bahrain	0.364
UAE	0.328
Qatar	0.262
Saudi Arabia	0.238
Kuwait	0.175

Table 4.22 presents the overall CSR disclosure index scores in terms of dimension at the country level. The best performer of CSR practices from the sampled GCC countries is Bahrain with a score of 0.364, followed by the UAE with 0.328, Qatar with 0.262, Saudi Arabia with 0.238. Bahrain scored the highest, as it is obliged by the AAOIFI governance standards, namely 'CSR conduct and disclosure for Islamic financial institutions', which requires subscribed Islamic banks to disclose their CSR practices. As can be seen, Kuwait scored the lowest with a score of 0.175.

Table 4.23: Dimension Level CSR Score Ranking

CSR Disclosure Index Dimensions	CSR Disclosure Index Score
Mission and Vision	0.470
Community	0.422
BOD	0.404
PRD & SER	0.384
Debtors	0.312
Employees	0.261
SSB	0.224
Zakah	0.158
Environment	0.034
R&D	0.028

Table 4.23 highlights the ranking for each dimension in terms of disclosure. The best performing dimension is 'mission and vision' with 0.47 implying that 47% of the expected information is communicated. In contrast, research and development dimension only scored 0.028; thus only 2.8% of the expected information is disclosed.

4.4. MEASURING CORPORATE GOVERNANCE DISCLOSURE PERFORMANCE OF ISLAMIC BANKS IN THE GCC: FINDINGS ON CORPORATE GOVERNANCE INDEX DIMENSIONS AT THE BANK AND COUNTRY LEVEL

After presenting the disclosure performance of CSR dimensions for the GCC Islamic banks, this section presents the disclosure performance results for each dimension under the CG disclosure index at the bank and country levels, as well as overall performance.

4.4.1 Disclosure Results on 'Mission and Vision' Dimension

The results for the 'mission and vision' dimension are shown in Table 4.24. The EIB of UAE scored the highest with full disclosure of 1, followed by ADI of UAE with a score of 0.87, Al Baraka Bank of Bahrain (0.80), QIB of Qatar (0.74), and KFH of Kuwait (0.62). The lowest scores in this dimension are attributed to KIB of Kuwait with 0.02, ABC of Bahrain with 0.11 and DIB of UAE with 0.13. The overall mean for the dimension is 0.50, which falls short of best practice.

Table 4.24: Results of 'Mission and Vision' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.57	KFH	0.62	QIB	0.74	AlRajhi	0.28	DIB	0.13
Al Baraka	0.80	KIB	0.02	IIB	0.57	AlJazira	0.25	ADI	0.87
ABC	0.11	Boubyan	0.14	MR	0.57	Alinma	0.45	EIB	1.00

Mean = 0.50

An example of the failure to meet the levels of compliance necessary is given by the ADI bank. The bank makes a general statement that its mission is "to provide Islamic financial solutions for the global community" (ADI Annual Report, ADI bank, 2009: 4) rather than stating in detail their compliance with *Shari'ah* principles.

Table 4.25: Results of 'Mission and Vision' Dimension at the Country Level

Country	Mission and Vision
Bahrain	0.495
Kuwait	0.266
Qatar	0.628
Saudi Arabia	0.333
UAE	0.802

Mean = 0.50

The country level results for the dimension of mission and vision is presented in table 4.25. This shows that the UAE Islamic banks industry scored the highest mean disclosure index with 0.802; this is followed by Qatar with 0.628, Bahrain with 0.495, Saudi Arabia with 0.333 and Kuwait with 0.266. The overall mean for the Mission and Vision at the country level is 0.50.

4.4.2. Disclosure Results on 'Composition of the Board of Directors' Dimension

The results of the content analysis according to the CG Index's 'Composition of the Board of Directors' at the bank level are presented in table 4.26. The table highlights that ABC of Bahrain scored the highest disclosure with 0.42, followed by Ithmar of Bahrain with 0.37, Al Baraka Bank of Bahrain with 0.31, followed by QIB of Qatar with 0.20. The other banks scored weakly with the poorest performers being KFH and KIB of Kuwait, AlRajhi and AlJazira bank of Saudi Arabia and ADI and EIB of UAE all of which scored zero.

Table 4.26: Results of 'Composition of the Board of Directors' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.37	KFH	0.00	QIB	0.20	AlRajhi	0.00	DIB	0.02
Al Baraka	0.31	KIB	0.00	IIB	0.02	AlJazira	0.00	ADI	0.00
ABC	0.42	Boubyan	0.15	MR	0.08	Alinma	0.02	EIB	0.00

Mean = 0.10

The overall mean of the CG index of 'composition of the Board of Directors' dimension at the bank level is 0.10, implying that only 10% of the expected information is communicated by the sampled Islamic banks on this particular dimension.

Table 4.27: Disclosure of 'Composition of the Board of Directors' Dimension at the Country Level

Country	Composition of the Board of Directors
Bahrain	0.372
Kuwait	0.050
Qatar	0.103
Saudi Arabia	0.007
UAE	0.007

Mean = 0.107

The results at the country level for the 'Composition of the Board of Directors' dimension can be seen in Table 4.27. Bahrain Islamic banks scored the highest mean disclosure index with 0.372, followed by Qatar with 0.103, Kuwait with 0.050, and Saudi Arabia and UAE both scoring 0.007. The low disclosure mean of 0.107 is an indication of poor CG practices.

4.4.3. Disclosure Results on 'Board Leadership' Dimension

The results of the content analysis according to the CG Index's 'Board leadership' at the bank level are presented in table 4.28 and at the country level in table 4.29.

Table 4.28: Results of 'Board Leadership' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.00	KFH	0.00	QIB	0.00	AlRajhi	0.00	DIB	0.00
Al Baraka	0.00	KIB	0.00	IIB	0.00	AlJazira	0.00	ADI	0.00
ABC	0.00	Boubyan	0.00	MR	0.00	Alinma	0.00	EIB	0.00

Mean = 0

As the results shows none of the sampled banks reported or communicated any information for this dimension; as a result they all scored zero. Therefore, the country level results also scored zero. This should be considered an important failure for the sampled banks in terms of disclosure.

Table 4.29: Results of 'Board Leadership' Dimension at the Country Level

Country	Board Leadership
Bahrain	0.00
Kuwait	0.00
Qatar	0.00
Saudi Arabia	0.00
UAE	0.00

Mean = 0

4.4.4. Disclosure Results on 'Board Meeting' Dimension

The results of the content analysis for the 'Board Meetings' of the CG Index at the bank level presented in table 4.29, AlRajhi Bank of Saudi Arabia, and ADI and EIB banks of UAE all scored the maximum possible of 1. They are followed by Ithmar Bank and Al Baraka Bank of Bahrain, QIB and MR Bank of Qatar and AlJazira Bank of Saudi Arabia all with a high score of 0.80. Boubyan Bank of Kuwait and Alinma Bank of Saudi Arabia both scored 0.60. Only IIB of Qatar with a score of 0.2, and ABC Bank of Bahrain with zero performed very poorly.

Table 4.30: Results of 'Board Meetings' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	Index	Bank	Index	Bank	Index	Bank	Index	Bank	Index
Ithmar	0.80	KFH	0.40	QIB	0.80	AlRajhi	1.00	DIB	0.40
Al Baraka	0.80	KIB	0.40	IIB	0.20	AlJazira	0.80	ADI	1.00
ABC	0.00	Boubyan	0.60	MR	0.80	Alinma	0.60	EIB	1.00

Mean = 0.64

The overall mean result at the bank level is 0.64, indicating a medium level of disclosure.

Table 4.31: Results of 'Board Meetings' Dimension at the Country Level

Country	Board Meetings
Bahrain	0.533
Kuwait	0.466
Qatar	0.600
Saudi Arabia	0.800
UAE	0.800

Mean = 0.64

The results at the country level for the 'Board Meetings' dimension can be seen in table 4.30. UAE and Saudi Arabia Islamic banks industry according to the sampled banks scored the highest mean disclosure score with 0.8, followed by Qatar with 0.600, Bahrain with 0.533 and Kuwait with 0.466. The overall mean of the Board Meeting dimension at the country level is 0.64

4.4.5. Disclosure Results on 'Nomination Committee and/or Compensation Committee' Dimension

The results of the content analysis for the 'Nomination Committee or/and Compensation Committee' at the bank level is presented in Table 4.31. AIthmar Bank and Al Baraka Bank of Bahrain both scored the highest with 0.41, followed by QIB of Qatar with 0.30 and ABC of Bahrain with score of 0.27. The poorest performing banks were DIB of UAE with 0.09, followed by KFH and KIB of Kuwait both with scores of 0.08, and IIB of Qatar with 0.03.

Table 4.32: Results on 'Nomination Committee and/or Compensation Committee' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.41	KFH	0.08	QIB	0.30	AlRajhi	0.18	DIB	0.09
Al Baraka	0.41	KIB	0.08	IIB	0.03	AlJazira	0.14	ADI	0.18
ABC	0.27	Boubyan	0.18	MR	0.20	Alinma	0.10	EIB	0.18

Mean = 0.17

The overall mean of the 'Nomination Committee and/or Compensation Committee' index score at the bank level is 0.17, which indicates a very weak performance in terms of the disclosure of the expected information.

Table 4.33: Results of 'Nomination Committee and/or Compensation Committee' Dimension at the Country Level

Country	Nomination Committee and/or Compensation Committee
Bahrain	0.369
Kuwait	0.113
Qatar	0.181
Saudi Arabia	0.145
UAE	0.090

Mean = 0.17

The results at country level can be seen in Table 4.33. Bahrain Islamic banking sector scored the highest with 0.369, followed by Qatar with 0.181, Saudi Arabia with 0.145, Kuwait with 0.113, and the UAE with the lowest score of 0.090. The overall score of the country level is 0.18.

4.4.6. Disclosure Results on '*Shari'ah* Governance' Dimension

The results of the disclosure analysis for the '*Shari'ah* Governance' under the CG Index at the bank level are depicted at Table 4.33. Al Baraka Bank of Bahrain scored the highest with 0.30, followed by Boubyan of Kuwait with 0.25, Ithmar Bank of Bahrain with 0.23 and KFH of Kuwait and QIB of Qatar both with 0.18. The other banks performed even more badly, with the worst performers being Alinma Bank of Saudi Arabia with a score of 0.05, DIB of UAE with 0.03, IIB of Qatar with 0.01, and ABC bank of Bahrain with zero.

Table 4.34: Results of '*Shari'ah* Governance' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.23	KFH	0.18	QIB	0.18	AlRajhi	0.09	DIB	0.03
Al Baraka	0.30	KIB	0.07	IIB	0.01	AlJazira	0.07	ADI	0.09
ABC	0.00	Boubyan	0.25	MR	0.10	Alinma	0.05	EIB	0.09

Mean = 0.11

The overall mean of the bank level results is only 0.11 for the CG dimension of the '*Shari'ah* Governance' index, indicating a very low level of disclosure.

Table 4.35: Results of '*Shari'a*h Governance' Dimension at the Country Level

Country	***Shari'ah* Governance**
Bahrain	0.181
Kuwait	0.169
Qatar	0.103
Saudi Arabia	0.072
UAE	0.072

Mean = 0.11

The results at the country level are depicted in table 4.35. This shows that Bahrain Islamic banks industry scored the highest mean discourse index with 0.181, followed by Kuwait with 0.169, Qatar with 0.103, and Saudi Arabia and UAE both with 0.072.

4.4.7. Disclosure Results on '*Shari'ah* Compliance, Supports and Operations' Dimension

The results of the content analysis according for the CG Index's '*Shari'ah* Compliance, Supports and Operations' at the bank level are displayed in table 4.34, while those at the country level are shown in table 4.35.

Table 4.36: Results of '*Shari'ah* Compliance, Supports and Operations' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.00	KFH	0.00	QIB	0.00	AlRajhi	0.00	DIB	0.00
Al Baraka	0.00	KIB	0.00	IIB	0.00	AlJazira	0.00	ADI	0.00
ABC	0.00	Boubyan	0.00	MR	0.00	Alinma	0.00	EIB	0.00

Mean = 0

The results show that there is no disclosed information in the annual reports of the sampled banks and therefore the disclosure score is zero for each bank and country. Considering that this dimension is an essential aspect of CG for Islamic banks, the results are extremely disappointing.

Table 4.37: Results of '*Shari'ah* Compliance, Supports and Operations' Dimension at the Country Level

Country	***Shari'ah* Compliance, Supports and Operations**
Bahrain	0.00
Kuwait	0.00
Qatar	0.00
Saudi Arabia	0.00
UAE	0.00

Mean = 0

4.4.8. Disclosure Results on 'Ethical Business Conduct and Corporate Responsibility' Dimension

Table 4.38 shows the results for the 'ethical business conduct and corporate responsibility' dimension of the CG ethical index at the bank level.

Table 4.38: Results of 'Ethical Business Conduct and Corporate Responsibility' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**	**Bank**	**Index**
Ithmar	0.26	KFH	0.13	QIB	0.07	AlRajhi	0.07	DIB	0.04
Al Baraka	0.15	KIB	0.01	IIB	0.06	AlJazira	0.06	ADI	0.07
ABC	0.03	Boubyan	0.07	MR	0.09	Alinma	0.00	EIB	0.03

Mean = 0.076

The results show that Ithmar bank of Bahrain scored the highest with 0.26, followed by Al Baraka Bank of Bahrain with 0.15, and KFH of Kuwait with 0.13. The other banks performed even worse, with DIB of UAE scoring 0.04, ABC Bank of Bahrain, and EIB Bank of UAE both scoring 0.03, KIB of Kuwait with 0.01, and Alinma Bank of Saudi Arabia with zero all doing particularly poorly. The overall mean of the CG Index's 'Ethical Business Conduct and Corporate Responsibility' dimension is 0.076. This is again a very low score, which fails to provide any confidence in CG practices of the sampled Islamic banks.

Table 4.39: Results of 'Ethical Business Conduct and Corporate Responsibility' Dimension at the Country Level

Country	**Ethical Business Conduct and Corporate Responsibility**
Bahrain	0.148
Kuwait	0.076
Qatar	0.076
Saudi Arabia	0.046
UAE	0.051

Mean = 0.076

The results at the country level can be seen in Table 4.39. Bahrain banks scored the highest with a disclosure score of 0.148, followed by Kuwait and Qatar banks with 0.076, UAE banks with 0.051, and Saudi Arabian banks with 0.046.

4.4.9. Results of 'Audit Committee' Dimension

The bank level results for the 'audit committee' under the CG ethical index are presented in Table 4.40.

Table 4.40: Results of 'Audit Committee' Dimension at the Bank Level

Bahrain		Kuwait		Qatar		Saudi Arabia		UAE	
Bank	**Inde x**	**Bank**	**Inde x**	**Bank**	**Inde x**	**Bank**	**Inde x**	**Bank**	**Inde x**
Ithma r	0.29	KFH	0.14	QIB	0.10	AlRajh i	0.09	DIB	0.03
Al Barak a	0.20	KIB	0.05	IIB	0.01	AlJazir a	0.07	ADI	0.09
ABC	0.08	Boubya n	0.08	MR	0.15	Alinma	0.05	EIB	0.09

Mean = 0.10

As can be seen from the results, Ithmar Bank of Bahrain scored the highest with 0.29, followed by Al Baraka Bank of Bahrain with 0.20, MR Bank of Qatar with 0.15 and KFH Bank of Kuwait with 0.14, The weakest performing banks were AlJazira Bank of Saudi Arabia with 0.07, KIB of Kuwait and Alinma Bank of Saudi Arabia both with 0.05, DIB of UAE with 0.03, and IIB of Qatar with 0.01. The mean is 0.10, which again does not provide much confidence in terms of disclosure performance of the sampled Islamic banks.

Table 4.41: Results of 'Audit Committee' Dimension at the Country Level

Country	Audit Committee
Bahrain	0.190
Kuwait	0.093
Qatar	0.090
Saudi Arabia	0.072
UAE	0.072

Mean = 0.10

The results at the country level are depicted in table 4.41. As can be seen, Bahraini Islamic banks scored the highest with a disclosure score of 0.190, followed by Kuwait with 0.093, Qatari banks with 0.090, and Saudi Arabia and UAE banks both with 0.072.

4.4.10. Overall Results for the CG Disclosure Performance

This section presents the overall results by ranking the banks and countries by their overall scores.

Table 4.42: Overall CG Disclosure Results at Bank Level

Ranking	Name of Bank	Country of Origin	Overall Score for CG Disclosure
1	Al Baraka	Bahrain	0.330
2	Ithmar	Bahrain	0.325
3	QIB	Qatar	0.265
4	EIB	UAE	0.265
5	ADI	UAE	0.255
6	MR	Qatar	0.221
7	AlRajhi	Saudi Arabia	0.190
8	KFH	Kuwait	0.172
9	Boubyan	Kuwait	0.163
10	AlJazira	Saudi Arabia	0.154
11	Alinma	Saudi Arabia	0.141
12	ABC	Bahrain	0.101
13	IIB	Qatar	0.100
14	DIB	UAE	0.082
15	KIB	Kuwait	0.070

Table 4.42 presents the overall CG disclosure results at the bank level. It shows that Al Baraka Bank of Bahrain scored the highest with 0.330; it was followed by Ithmar Bank of Bahrain with a disclosure score of 0.325, QIB of Qatar and EIB of UAE both with 0.265. The poorest performing banks were IIB of Qatar with 0.100, DIB of the UAE with 0.082 and KIB of Kuwait with 0.070. The overall CG disclosure is too low to provide confidence and trust in the operations of GCC Islamic banks.

Table 4.43: Country Level for all the Dimensions

Country	CG Disclosure
Bahrain	0.254
UAE	0.210
Qatar	0.197
Saudi Arabia	0.163
Kuwait	0.137

Mean= 0.19

Table 4.43 provides the ranking of the countries for the overall CG disclosure, which shows that Bahrain is the best scoring country with score of 0.254, followed by UAE with 0.210, Qatar with 0.197 and Saudi Arabia with 0.163, while Kuwait is the lowest scoring country with score of 0.137.

Table 4.44: Dimension Level CG Disclosure Index Score Ranking

Dimension	CGDI Dimensions
BM	0.640
Mission	0.470
NCCC	0.188
Sh Gov	0.119
CBD	0.106
Audit Com	0.101
EBCCR	0.076
BL	0.000
SCSO	0.000

Mean=0.18

Table 4.44 presents the CG disclosure index in terms of overall dimension scores. It shows that the most information among the CG dimensions is for 'Board Meeting' with 0.640, implying that 64% of the expected information is communicated. In contrast, '*Shari'ah* Compliance, Supports and Operations' and 'Board Leadership' related information is zero, which is a source of considerable concern.

4.4.11 **THE RELATIONSHIP BETWEEN THE CSRDI AND THE CGDI**

As stated in the introduction, this study hypothesises that there is a positive correlation between CSRDI and CGDI in the sense that CG practices determine and provide the necessary environment for CSR practices. This section aims to establish if there is any correlation between CSRDI and CGDI. In searching for any correlation, parametric and non-parametric correlation measures are used to test the relationship.

Table 4.45: Pearson Correlation between CSRDI and CGDI

		CSRDI	CGDI
CSRDI	Pearson Correlation	1	.578*
	Sig. (2-tailed)		.024
	N	15	15
CGDI	Pearson Correlation	.578*	1
	Sig. (2-tailed)	.024	
	N	15	15

Note: *. Correlation is significant at the 0.05 level (2-tailed).

The parametric test, the Pearson Correlation test, is used and the results are depicted in Table 4.45. The results indicate a positive and statistically significant result at the 5% level of significance. However, the strength of the relationship remains medium; as the Pearson Correlation produced a score of 0.578 (note that perfect correlation should be close to ±1). The results implies that the CG and CSR practices move in the same direction, indicating that any betterment of CGDI will lead to better CSRDI practices.

In order to respond to the possibility that the data used in this study might be non-parametric due to the nature of the data, non-parametric correlation analysis in the form of Spearman's Rho was utilized. The results can be seen in Table 4.46. These show that there is a statistically significant and positive correlation between CSRDI and CGDI at the 5% level of significance. The results indicate that strength of the correlation (0.629) is above medium, but still moderate. This implies that CGDI and CSRDI move together in the same direction; betterment in one will lead to betterment in the other. Thus, the initial assumption made by this study is proved by the correlation results.

Table 4.46: Spearman's Rho between CSRDI and CGDI

			CSRDI	CGDI
Spearman's rho	CSRDI	Correlation Coefficient	1.000	.629*
		Sig. (2-tailed)	.	.012
		N	15	15
	CGDI	Correlation Coefficient	.629*	1.000
		Sig. (2-tailed)	.012	.
		N	15	15

Note: *. Correlation is significant at the 0.05 level (2-tailed).

Correlation analysis is useful in informing about the relationship between two variables, in this case CSRDI and CGDI. However, it does not inform us of the direction of the relationship. This research, as identified in the aims and objectives, assumes that CG should be the one to define the framework for CSR and hence the causality should run from CGDI to CSRDI. However, causality analysis could not be undertaken in this study.

4.5. CORRELATING LONGEVITY AND CSRDI AND CGDI SCORES

This section provides further understanding on the CSRDI and CGDI scores of the sampled Islamic banks by correlating the age of the sampled banks with their CSR and CG scores. Two hypotheses are investigated:

1) older banks should have better structures, processes, procedures and philosophy for conducting CSR and structuring their CG
2) older banks have not been exposed to such matters and therefore younger banks have adopted a more efficient way of approaching such matters.

The ages of the sampled banks were collected from their annual reports and the data were correlated with the CSR and CG scores previously established. Table 4.47 depicts the age of banks and CSR and GC scores.

Table 4.47: Descriptive Statistics for Correlation Analysis between Age of Banks and CSR and CG Scores

Name of the Bank	Age of the Bank	CSR Scores	CG Scores
Ithmar	11 years (2003 - 2014)	0.420	0.325
QIB	32 years (1982 – 2014)	0.338	0.265
EIB	39 years (1975 – 2014)	0.368	0.265
ADI	18 years (1997 – 2014)	0.438	0.255
MR	7 years (2006 – 2014)	0.285	0.221
KFH	37 years (1977 – 2014)	0.268	0.172
Boubyan	10 years (2004 – 2014)	0.183	0.163
Aljazira	39 years (1975 – 2014)	0.263	0.154
Alinma	6 years (2008 – 2014)	0.186	0.141
ABC	30 years (1984 – 2014)	0.207	0.101
DIB	35 years (1975 – 2014)	0.132	0.082
Al Baraka	12 years (2002 – 2014)	0.435	0.330
AlRajhi	57 years (1957 – 2014)	0.260	0.190
IIB	13 years (1991 – 2014)	0.168	0.100
KIB	33 years (1973 – 2014)	0.075	0.070

As can be seen from the non-parametric correlation analysis results highlighted in table 4.46, the correlation analysis produced – 0.093 in the case of ‘age of banks’ and ‘CSR Score’, which implies that there is a negative relationship between them; and the correlation coefficient is only 9.3%. The statistical result shows that there is no statistical significance in the case of correlation between the two as the Chi-Square result is 0.741, which is higher than the tabular value of 0.05.

The correlation coefficient between ‘age of the banks’ and ‘the CG score’ is -0.145, implying that there is a negative correlation between the ‘age of banks’ and ‘the CG score’; however, the strength of the relationship is very low, less than 15%, and it is not statistically significant.

Table 4.48: Correlation Analysis Results for the Relationship between Age of Banks and CSR and CG Disclosure

			Age of the Banks	CSR Disclosure Score	CG Disclosure Score
Spearman's rho	Age of the nks	Correlation Coefficient	1.000	-.093	-.145
		g. (2-tailed)	.	.741	.605
		N	15	15	15
	CSR Disclosure Score	Correlation Coefficient	-.093	1.000	.924**
		Sig. (2-tailed)	.741	.	.000
		N	15	15	15
	CG Disclosure Score	Correlation Coefficient	-.145	.924**	1.000
		Sig. (2-tailed)	.605	.000	.
		N	15	15	15

Notes: **. Correlation is significant at the 0.01 level (2-tailed).

As the analysis shows, it seems that older banks do not necessarily have the best practices in CSR disclosure and CG disclosure, as the correlation analysis implies that younger banks have better disclosure practices in both aspects. This can be explained by the fact that younger banks may have better opportunities to be exposed and to adopt disclosure practices in CSR and CG; and their organizational structure is perhaps more open to such practices which are considered 'new' and 'modern'. The results imply that the traditional organizational structures of older banks are not necessarily ready to accept new forms of doing business.

4.6. CONCLUSION

This chapter presents and analyses the results of the CSR and CG disclosure index performance for the sampled Islamic banks measured through the results obtained from the content analysis. It then examines the correlation between CSR and GC and explains the practices of the sampled Islamic banks are parallel in terms of CSR and CG disclosures.

The findings reveal Al Baraka Bank of Bahrain achieved the highest score in terms of the overall CG disclosure followed by Ithmar bank of Bahrain with 0.325, and QIB of Qatar with 0.265, while the lowest score was by KIB of Kuwait with 0.070.

Furthermore, the overall CG disclosure is rather low thereby undermining confidence and trust in the operations of GCC Islamic banks. An attempt is also made to find the most reported CSR dimension, which is ‘mission and vision’ with 0.47, implying that 47% of the expected information is communicated. In contrast, the ‘research and development’ dimension disclosure is minimal at only 2.8% of the expected information disclosed.

Chapter 5

DISCUSSION AND CONCLUSION

5.1. SUMMARIZING THE FINDINGS

The previous chapter presents an in-depth analysis based on the exploration of the secondary data through the developed ethicality index; for which the data was subject to content analysis in an attempt to measure the CG and CSR disclosure performance of the GCC Islamic banks. In doing so, the relationship between CG and CSR disclosure performance as measured through the individual indices was investigated. This chapter concludes by summarising the results and providing reflections on the results.

As is illustrated in the literature review and the analysis chapters, the ultimate goal of the Islamic moral economy is to establish a balanced society, which includes justice and fairness in the socio-economic welfare of its citizens alongside a legitimate understanding of wealth generation. Thus, all the institutions in the Islamic economy, financial and non-financial sectors, are expected to work towards this moral responsibility, which is summed up by *maqasid al-shari'ah*, (the objectives of *shari'ah*), which are interpreted as human well-being. As Islamic banks and financial institutions are the only institutional forms of the Islamic economy at the present time, they are expected to live by these higher objectives. In this context, this study evaluates the performance of the sampled Islamic banks from the GCC in relation to CG and CSR in relation to respective indices created through the articulation of Islamic moral economy expectations.

In line with the high rates of growth of the Islamic finance industry, particularly in the GCC, it is important to examine the performance of Islamic banks in relation to CSR and CG. Since both CSR and CG place greater emphasis on the ethical side of the business practices it is also necessary to reflect on these ideas can result in an improved performance of the financial institutions in order to produce a better outcome for their shareholders.

The sample was based on the main Islamic banks in the GCC; a total of 15 banks, with three from each country Bahrain, Kuwait, Qatar, Saudi Arabia and UAE. The selection criterion was based on the asset size of the major Islamic banks. After the sampling, their annual reports were collected for 5 years from 2008 to 2012. Thus, 75 annual reports were sampled for content analysis. In conducting the coding method to examine the annual reports with the objective of identifying the communicated information, individual indices were developed for CSR and CG disclosures. The dimensions and elements of the indices can be found in Table 3.1, and are described in detail in the research methodology chapter.

In order to use the annual reports to measure the CSR and CG performance, ten dimensions were created for the CSR disclosure index and nine dimensions were formed for the CG disclosure index. The sub-constituents or elements of these dimensions were drawn from the principles and norms of the Islamic moral economy as well as from the international Islamic finance standards.

In responding to the research aims and questions, this study hypothesises that Islamic banks and financial institutions should be placed in high score areas in relation to CG and CSR disclosure performance. Second, the study also hypothesises that there is a positive correlation between CSR and good CG practices in Islamic banks, which are considered as essential elements of Islamic moral economy and finance. In other words, it is assumed that an efficient and effective CG structure and environment should lead to a better CSR score, as these institutions must perform well in these areas because Islamic bank operations, forms and institutionalisation are expected to reflect the higher objectives.

Chapter 4 presents the findings, the results and the measurements of CSR and CG performance of the sampled Islamic banks from the GCC region derived from their annual reports. As the results indicate, the CG and CSR disclosure performances of the banks do not meet the expectations with the scores being rather low. Second, there is no significant correlation between CSR and CG disclosure performance scores as measured by the indices used. Contradicts the above sentence?

As highlighted in Chapter 4, during the period in question, in terms of the bank and country level performance, the most communicated information in the annual reports among the CSR dimensions is related to 'Mission and Vision' with an index score of 0.47, implying that 47% of the expected information for this dimension is communicated. It should be noted that the lowest performing dimension is found to be 'Research and Development' (R&D), as only 2.8% of the expected information is disclosed in the case of R&D in the sample.

Table 4.22 presents the overall bank level results for the CSR disclosure of the main Islamic banks in the GCC region. The bank with the highest score was ADI Bank from the UAE with a score of 0.438 of the CSR practices. The lowest performance on CSR disclosure and practices was KIB of Kuwait, which scored an overall 0.075.

As regards country level, Kuwaiti Islamic banks scored the lowest on the CSR disclosure index among the sampled GCC countries with a mean score of 0.175%. Similarly, in terms of CG disclosure index performance, Kuwait scored the lowest at 0.137%, with zeroes in the three dimensions of 'Ethical Business Conduct and Corporate Responsibility', 'Board Leadership and *Shari'ah* Compliance' and 'Supports and Operations'.

At the bank level of the CG disclosure performance, the most communicated information among the CG dimensions is for 'Board Meeting' with an index score of 0.64, implying that 64% of the expected information on 'Board Meeting' is communicated through the examined annual reports. However, '*Shari'ah* Compliance, Supports and Operations' related disclosure information could not be located in any of the annual reports, and therefore zero score is achieved in this particular dimension.

Table 4.1 presents the overall results on the bank level for CG and shows that Ithmar Bank of Bahrain scored the highest with a disclosure score of 0.325, followed by QIB of Qatar with a score of 0.265, and EIB of UAE which scored 0.265. The lowest score was by KIB of Kuwait with 0.07.

Overall, Saudi Arabia and Kuwait were found to be the lowest performers in terms of the CSR and CG disclosure performance indices, while Bahrain, UAE and Qatar scored the highest scores for CSR and CG disclosure practices.

Despite the low scores achieved in the CG and CSR disclosure indices, the research attempted to establish if there was a positive correlation between the two sets of results. However, there is no correlation for the Islamic banks between their social and financial performance.

Overall, the results indicate that Islamic banks failed to disclose information for most of their CSR and CG related dimensions, while it was observed that most of the information disclosed relates to financial information about their bank performance. It should be noted that only a few banks were able to disclose valuable information in relation to their CSR and CG expectations.

5.2. CRITICAL REFLECTIONS ON THE RESULTS

While the CG and CSR disclosure index scores for the sampled GCC Islamic banks are found to be low, there could be a number of issues affecting the results. For example, the political economies of the GCC countries do not necessarily prioritize CG issues; CG codes in these countries are not well established. Therefore, the banks, whether Islamic or not, do not have the necessary motivation to disclose information, which will be detrimental for empirical studies such as this one.

In addition, disclosure can have certain implications in the case of Muslim culture, in particular in relation to CSR practices. According to Islamic principles, 'giving' such as '*sadaqah*' (doing a good deed) or contributing towards the wellbeing of society, should not be highlighted by the individuals concerned, as it is considered more pious not to do so. This perhaps can be considered as a cultural reason why CSR and CG practices disclosed by the sampled GCC Islamic banks are very low. However, given that Islamic banks are legal entities and not individuals, the piety-oriented Islamic principle should not apply. In the context, AAOIFI governance standards state it is essential that CSR and CG related issues should be disclosed by Islamic banks. However, among the sampled countries, only Bahrain imposed AAOIFI standards on its own Islamic banks, with a high score of 0.364.

It is argued that since the *shari'ah* responsibility is integrated in the financial performance of Islamic banks and other financial institutions, CSR should be fulfilled by definition. However, as the operation of Islamic banks highlights, the process of the *shari'ah* is very much relegated to legal responsibility in terms of fulfilling the form. Given that the Islamic definition of *shari'ah* historically implies ethical along with legal responsibility, the substance of the law should also be prioritized. As discussed in the earlier chapters, CSR and CG practices are legitimatized and rationalized through Islamic norms driven by the Islamic moral economy. Therefore Islamic banks are expected to follow such norms and establish a balance between the form and the substance of *shari'ah*.

As a practical reflection, it should be noted that the sample size in this study is limited to only 15 banks in the GCC. Therefore, caution should be taken in interpreting the results.

5.3. FUTURE RESEARCH

In order to overcome the sampling issues, future research may consider a much larger sample to develop the findings, which can then be generalized more accurately. In addition, the data set could be enlarged by increasing the period under consideration. In addition, further econometrics techniques could perhaps be employed to measure, for example, causality between CG and CSR. Finally, the correlation analysis could be extended by conducting an econometric study to define the micro and macro determinants of the observed scores.

Furthermore, since the content of the indices are constructed, the data set can be expanded with further banks with longer period of coverage. In addition, financial performances of the sampled banks can also be conducted. Consequently, an econometric analysis can be conducted between CSRD, CGD and financial performance to locate the causal impact as to whether CSRD and CGD performance causing financial performance or otherwise.

As a future research, this research can be expanded through social performance analysis through *maqasid al-Shari'ah*, which is defined as 'human well-being'. Since *maqasid al-Shari'ah* is the articulation of CSR and CG performances, measuring maqasid dimension through Ghazalian as well as extended *maqasid al-Shari'ah* through Shatibi and Ibn Qayyim will provide an opportunity to create similar indices as this study did. Thus, by conducting content analysis *maqasid al-Shari'ah* disclousures can be located in relation to social performance. This will provide a more authentic understanding of measuring social performance of Islamic banks and financial institutions, as *maqasid al-Shari'ah* dimensions are the articulation of Islamic moral economy expectations. In addition, this research can be expanded further to examine a potential impact of CSR and CG disclosure on financial performance through conducting regression analysis.

5.4. LIMITATIONS AND DIFFICULTIES

It is vital to understand that this research was subject to various limitations such as the difficulties faced in collecting data given that few Islamic banks are long-established and therefore data is by necessity limited. For example, data for the International Islamic Bank, Masraf Al-Rayan of Qatar and Alinma bank of Saudi Arabia were not available for the year 2008. The limited data is an obstacle in conducting the research, and undermining the accuracy of analysis. Furthermore, since the research focused mainly on Islamic Banks within the GGC further research extend to geographical reach to the Middle East and North Africa region and possibly beyond. Moreover, a comparative analysis with other countries and regions would add value to the results; for example comparing Malaysia with Qatar or Kuwait, could be a fruitful area of study.

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